

1992981

Nestor Healthcare Group plc Annual Report and Accounts 2008

THU WEDNESDAY



A47	*AJRSJA05* 20/05/2009 COMPANIES HOUSE	131
A62	*AKOVX9ND* 07/05/2009 COMPANIES HOUSE	81

Contents

1	Group at a glance	26	Remuneration report	40	Group and Company cash flow statements
2	Chairman's statement	33	Corporate governance	41	Notes to the financial statements
5	Independent directors' statement	37	Independent auditors' report	84	Five year summary
7	Operating review	38	Group income statement	86	Shareholder information
16	Financial review	39	Group and Company balance sheets	87	Registered office and advisors
19	Board of directors	40	Group statement of recognised income and expense		
20	Directors' report				
25	Directors' responsibilities				

Group at a glance

Nestor Healthcare Group plc is an independent organisation dedicated to delivering services to the health and social care markets. We deliver managed services through our partner organisations and direct to individuals, focused on meeting a person's needs and thereby enhancing their wellbeing.

Our emphasis on person-centred, effective solutions makes us a strong partner providing short-term or long-term health and social care for the community. Established in 1949, we employ a nationwide workforce, managed and deployed from our network of local offices.

Social Care describes the care of people, of all ages, which meets their common human needs to enable a certain quality of life. We deliver managed services to those in need of care at home in order to allow people to live a life of their choosing. The services are provided through Local Authorities, through Primary Care Trusts or direct to the individual.

- We deliver more than 8 million hours of care annually.
- We provide care to over 15,000 individual service users supported by 9,000 care workers.

Primary Care is usually the first point of contact for patients. Primary Care Trusts and Local Health Boards plan and commission health care services for their local communities. Successive governments' agendas continue to drive towards an environment of quality care and choice for all individuals.

- We are responsible for the healthcare of 12% of the UK's population outside of standard business hours.
- We are the UK's largest provider of healthcare services to secure institutions and police forces.

Chairman's statement

Introduction

I am pleased with the progress made in the Group during 2008, which is evident in the improved profitability of Social Care, though not yet apparent in the financial performance of Primary Care. Excluding the contribution of Carewatch (disposed of during the year), profits in Social Care are up 40% on the previous year, despite a small reduction in revenue, as the management team recruited in late 2007 have withdrawn from some unprofitable activities, and also improved efficiencies and cost controls across the branch network. Primary Care reported a breakeven performance in the first half of 2008, but delivered profits in the second half whilst still investing in business development. More importantly, in recent weeks the business has won a number of tenders, both in its traditional out-of-hours deputising activity and also under the government's extended access programme, which will contribute to profits during 2009 and beyond. The performance and outlook for both businesses are discussed in more detail below.

In October we completed the sale of our franchise domiciliary care business, Carewatch, for £37.0m. The price achieved, and the profit on sale of the business, have significantly strengthened the Group's balance sheet and are the major factors in the reduction of debt, now below £20m. In addition the Board believed that the timing of the disposal was appropriate given increased competition in the Social Care market and the potential conflicts of interest between Carewatch and the Group's remaining domiciliary care businesses.

The Group results include a number of exceptional charges, none of which relate to the underlying trading performance. In addition to redundancy costs, the charges relate to vacant properties, the value of interest rate hedges and potential liabilities from two past clinical incidents.

Results summary

	2008	2007
Revenue	£163.3m	£179.6m
Operating profit before exceptional charges	£12.8m	£13.8m
Less: exceptional charges	(£7.5m)	(£0.7m)
Operating profit	£5.3m	£13.1m
Profit on sale of Carewatch	£31.1m	–
Net interest	(£3.9m)	(£4.2m)
Fair value loss relating to derivative contracts	(£2.1m)	–
Profit before tax	£30.4m	£8.9m
Basic earnings per share	26.9p	5.4p
Underlying earnings per share	5.7p	5.4p
Final proposed dividend per share	1.5p	1.0p

Underlying earnings per share is based on operating profit before exceptional charges, less interest and tax, and therefore excludes the effects of exceptional operating charges, the fair value loss relating to derivative contracts, the profit on disposal of operations and tax effects thereof.

Profit on sale of Carewatch

The Group completed the sale of its Carewatch business to Lyceum Capital for £37.0m in October 2008. At the time of disposal the net assets and goodwill of Carewatch totalled £4.5m and the costs of completing the transaction amounted to £1.4m. The revenue and operating profit of the business for the nine months to 3rd October 2008 and the full year 2007 are shown separately in the table below.

Revenue and operating profit before exceptional charges

	2008 Revenue	2008 Operating profit	2007 Revenue	2007 Operating profit
Social Care	£104.5m	£8.1m	£111.1m	£5.8m
Primary Care	£49.3m	£1.4m	£55.4m	£3.4m
	£153.8m	£9.5m	£166.5m	£9.2m
Carewatch	£9.5m	£3.3m	£13.1m	£4.6m
Total	£163.3m	£12.8m	£179.6m	£13.8m

Social Care

Following the sale of Carewatch, the remaining Social Care business comprises Goldsborough/Medico, with a network of 101 domiciliary care branches, and Country Cousins and Patricia White's which also provide homecare, but exclusively to private patients. Approximately 80% of Social Care revenue comes from the public sector.

Revenue of the remaining businesses shows a reduction from 2007 of £6.6m to £104.5m due mainly to our withdrawal from an unprofitable contract in Harrow, which had generated revenue of £2.9m, and the fact that the financial year 2007 contained 53 weeks, which added £1.8m of revenue. Acquisitions made during the course of 2007 produced £10.4m of revenue in 2008, compared to £8.0m in the previous year. Like-for-like volumes in 2008 are slightly down on the previous year as Local Authority spending remains constrained. Goldsborough/Medico has deliberately chosen not to pursue a number of tender opportunities, because they were not expected to generate an acceptable return. Volume performance has been mixed across the network of branches, but includes a number of branches recording significant growth. Recruitment of care workers continues to be the main inhibitor to growing hours; however the current economic climate and employment prospects may create more interest in care work as a stable, yet flexible, career.

Operating profit before exceptional items of £8.1m, an increase of 40% on 2007, is a pleasing result given the reduction in revenue. Operating efficiencies and cost savings in support services and at branches have been achieved through close attention to detail, which has been the approach of the management team, led by John Ivers, and almost all recruited during the second half of 2007. A more rigorous approach has been taken to underperforming branches with the network trimmed from 115 to 101 by the end of the year. Another important area of concentration has been service quality where the progress is evident from, and independently verified by, the significant improvement in our Commission for Social Care Inspection (CSCI) audit ratings.

Country Cousins and Patricia White's both performed well in 2008, together delivering sales and profits ahead of the previous year. The strength of these businesses lies in the quality of their service and consequently their reputation, which is expected to enable them to continue the trend of profit growth in 2009 despite the downturn in the wider economy.

Primary Care

Primary Care comprises Primecare Primary Care ("Primecare"), a provider of integrated out-of-hours healthcare, providing advice and treatment to patients; and Primecare Forensic Medical, a business delivering clinical services to secure establishments and police forces. Primecare's customer base includes Primary Care Trusts (PCTs), GP practices, GP co-operatives, NHS Trusts and Strategic Health Authorities. Approximately 85% of Primary Care revenue comes from the public sector.

Primary Care's reported operating profit before exceptional items shows a reduction of £2.0m from the previous year on revenue down 11% at £49.3m. Progress has however been made, with almost all of the profit of £1.4m being recorded in the second six months after a close to breakeven performance in the first half of the year. The results of the last two years have been affected by a combination of the expiry of a number of "traditional" out-of-hours contracts and Primecare's investment in business development to better address the changing market. This investment has begun to pay off. In recent weeks Primecare has been awarded extensions to two significant out-of-hours contracts and has been selected as preferred bidder for five "Darzi" schemes under the government's extended access programme. The latter comprise walk-in centres, health centres and GP practices and are awarded for a five-year term. The profit input from these schemes will be limited in 2009 as they are programmed to commence during the summer, but the fact that Primecare and other independent providers have been successful in being awarded these contracts gives more confidence in the opportunities likely

to emerge in the future. David Rose joined Primecare as Managing Director in September 2008, from his role as Chief Executive of Warwickshire PCT, and has made an immediate impact in finalising the terms of these various contracts. His experience will be invaluable going forward as the opportunities available to Primecare become more diverse and his understanding of PCT priorities and ways of working will be very beneficial. Throughout this period of intense tender activity, Primecare has retained its focus on delivering an excellent service under its current contracts. Productivity improvements have continued, but not at the expense of the quality and safety of the service, with clinical governance retaining a high priority.

Exceptional charges

In the year to December 2008 the Group has incurred, or made provision for, a number of exceptional charges totalling £7.5m, the details of which are as follows.

A charge of £3.5m has been taken in respect of two legal cases in connection with our primary care service. The cases relate to clinical incidents, in 2001 and 2004, and it is now thought likely by the Board and its advisors that a liability will be incurred. Since the dates of these incidents, clinical governance controls have been much improved and there are no other such cases notified.

The rationalisation of the Group in recent years has resulted in a number of operational properties being vacant, some with onerous leases. Prior to 2008, the Group had some success in sub-letting such properties; however in the last year no such progress has been made and with the current poor outlook for commercial property, the Group has increased the balance sheet provision by £2.6m to cover the ongoing lease commitments through to their expiry.

At the half-year stage we reported termination costs of £0.8m, partly in respect of Stephen Booty, who stood down as Chief Executive in April. With the sale of Carewatch, a review of the Group's ongoing cost base led to a further 22 roles being terminated at a cost of £0.6m, bringing the total for the year to £1.4m.

Derivative contracts

Prior to the disposal of Carewatch in October, the Group's net debt totalled approximately £55m. In order to protect against any significant rises in interest rates the Group had entered into hedging arrangements which fixed £60.0m of its borrowing in a range of interest rates between 4.5% and 7%. Immediately following the completion of the Carewatch sale, the cancellation of the derivative contracts would have required a significant cash payment. Subsequent reductions in interest rates have exacerbated the situation and at 31st December 2008, cancellation would require a payment of £2.5m, which represents a £2.1m

Chairman's statement continued

increase above the valuation held at the end of 2007. This increase of £2.1m has been charged to finance expense. The two derivative contracts expire in October and November 2010, when their value will be nil. Should interest rates continue at the current very low levels this will lead to significant cash payments over the lives of the contracts, but the Board currently believes that the contracts should be held until expiry, rather than cancelled now for an immediate cash outlay.

Cash flow

Year-end net borrowings were £19.0m (year-end 2007: £58.0m), a net inflow of £39.0m, largely due to the net proceeds from the sale of Carewatch, being £35.6m after transaction costs of £1.4m. Additional consideration of £0.8m was paid in respect of Social Care acquisitions made in 2007; the remaining £0.2m being paid in January 2009. Cash flow from operations totalled £10.9m (2007: £8.0m), despite the provisions made and cash paid with respect to the exceptional charges referred to above. Working capital showed a reduction of £3.3m over the course of the year largely due to a fall in debtor days outstanding to 39 days, compared to 43 days at the end of 2007.

Bank facilities

Following the completion of the sale of Carewatch in October 2008, the Group reduced its banking facilities initially to a total of £33.0m, then to £29.0m at 31st December 2008. Total facilities will fall in stages during 2009, ultimately to £23.0m at the end of September. With no acquisition activity currently planned, these facilities, which are due for renegotiation in December 2009, are expected to be sufficient for current requirements. Revised covenants have been put in place which are appropriate to the Group's strengthened balance sheet and which reflect the revised outlook for profitability following the sale of Carewatch. The cost of borrowing has reduced with lower interest rates and the margin paid in the final quarter of 2008 was 2% over LIBOR, compared to the previous 2.75%.

Taxation

The tax charge for the year was just £1.0k (2007: £3.1m), due to the impact on profits of the exceptional charges, all of which are generally allowable for tax deduction. The profit on the sale of Carewatch will not suffer a tax charge as the gain will be offset by capital tax losses available.

Dividends

The Board is recommending a final dividend of 1.5p per share (2007: 1.0p) payable on 5th June 2009 to shareholders on the register on 8th May 2009. The increased final dividend takes account of the fact

that no interim dividend was paid as, at the time the Board considered the matter, the Carewatch transaction had not been completed.

Employees

This year has seen many changes at senior levels across the Group, the result of which is an improvement in the depth of management strength to operate and support both business streams. We have also implemented a number of redundancies towards the end of the year, as we have to achieve greater business focus within the divisions, with a more streamlined corporate centre and cost base of the Group following the disposal of Carewatch. Another year of significant change, and at times uncertainty, has not diminished the morale of Nestor's employees and, on behalf of the Board, I thank them all for their continuing hard work and dedication. I would also make special mention of the Carewatch team who did such an excellent job in growing their business over many years and helped us to achieve such a good result for Nestor with the disposal to Lyceum.

Board changes

Following Stephen Booty's departure at the end of April 2008, I have fulfilled the role of Chief Executive on a part-time basis. This was appropriate through the process of selling Carewatch and whilst the Managing Directors of Social Care and Primary Care were new to their roles. I will continue in this dual role until 30th June 2009. Before that date the Board will decide when to initiate a recruitment process for the Chief Executive role, upon whose appointment I will revert to the role of non-executive Chairman.

Outlook

Progress has been made in both Social Care and Primary Care during 2008. Profits in Social Care are much improved and the challenge going forward is to grow volumes and with the benefit of improved management and quality of service, I am confident this can be achieved. The strategic questions over our Primary Care business have begun to be answered in the positive with the recent contract awards. It is essential that the business delivers a strong operating performance when commencing the new contracts to build further on our excellent service reputation. Our strong dependency on the public sector can only be an added strength in these uncertain times for the economy as a whole.

John Rennocks
Chairman

10th March 2009

Independent directors' statement

In April 2008, following Stephen Booty's standing down as Chief Executive, the Board decided to appoint John Rennocks as Acting Chief Executive. This position is in addition to his continuing responsibilities as Chairman of the Board. The Board recognised at that time and continues to recognise that this is not consistent with accepted best practice, but believed and continues to believe it is in the best interests of the Group and its shareholders.

The Board has agreed with John Rennocks that he will continue in this dual role until 30th June 2009. Before that date, the Board's Nomination Committee will decide when to initiate a recruitment process for the Chief Executive's appointment. Shareholders will be kept apprised of this process via the Annual General Meeting statement to be released on 1st May 2009 and any other statements the Company makes to shareholders.

Sir Andrew Foster
Senior Independent Director

Roger Dye
Independent Director

10th March 2009

"I think we have been fortunate to have this particular care worker. She is caring, considerate and punctual. My father becomes quite distressed if there are changes, but he is very happy with the present arrangement."

Daughter of client, Sheffield

Operating review

Social Care – our markets and services

'Social Care' describes the care of people, of any age, which meets their common human needs and gives them a certain quality of life. It can refer to all types of care for a person that does not involve hospitalisation.

Social Services' funds are allocated to sectors of the population such as older people, children and families, people with learning or physical disabilities, mentally ill adults and asylum seekers. Funds can also be allocated by the place and/or means of care, such as day and domiciliary care or residential provision in nursing or care homes.

The market for the provision of care for individuals at home continues to grow with people living longer and through the Personalisation Agenda, which is designed to enable people to lead their lives as independently as possible. The growth in demand for social care service is expected to continue, as caring for individuals in their own home represents a large cost saving compared to their treatment in a hospital or care home environment.

The market

The last time a large-scale survey of the domiciliary care market was undertaken was in 2006 when the market for homecare was valued at £2.8bn. Independent sector providers delivered homecare worth £2.3bn, approximately 78% of the total, with the balance provided by Local Authorities' in-house teams. Approximately 160 million homecare contact hours were delivered in the UK in 2007, a fall of 4.5% on 2006. There was a 3% fall in number of households receiving services, but a 3% rise in households receiving more intensive services, meaning more than 10 hours of care per week. Local Authorities have had to raise the qualifying criteria for care in order to meet their budget constraints.

Local Authority contracts represent approximately 80% of the revenues of our Social Care business. The balance of 20% is the provision of care to individuals who either purchase their own care, or have it paid for by friends or relatives. Private clients represent a stable and lucrative market, with potential for growth both to satisfy their care needs and in the provision of additional support services.

Our approach to the market

Goldsborough/Medico operates through a nationwide network of around 100 branches making it one of the largest providers in the sector. Approximately 85% of its activity is generated through contracts with more than 70% of Local Authorities. The remaining 15% of revenues relate to the provision of services to private clients. Country Cousins and Patricia White's are both businesses dedicated to the private client market providing an agency service of live-in support and care.

Care for specialist sectors

Older people – providing older people with the best possible quality of care enables them to make choices about their quality of life. Domestic services can provide assistance with nutrition, often through basic support tasks like accompanied shopping and helping prepare meals, whilst at the same time helping the individual to retain or regain key skills themselves. We also offer enhanced services such as those for older people with physical disabilities, or specialist services for conditions like dementia or Alzheimer's.

Children's and families' services – we provide support to children with learning or physical disabilities as well as where a child's parent or primary carer has social care needs, such as alcohol or drug dependency issues.

Mental health services – our services are specifically designed to meet the needs of service users who may have long-standing or transient mental health problems, including people subject to guardianship and supervision orders under the Mental Health Act.

Learning disabilities – our specialist services seek to provide increased independence and enable the best possible quality of life for people of all ages with learning disabilities. Specialist care and support workers support many individuals with severe and complex communication needs, sensory loss and challenging behaviour.

"I've always had a good working relationship with all the office team; they are always very helpful and will sort out any concerns or problems very quickly. I find everyone very supportive."

Care worker, Birkenhead

Operating review continued

Our businesses

Goldsborough/Medico

With a bank of up to 9,000 care and support workers, Goldsborough/Medico delivers up to 8 million hours of care per annum. The focus of the business at all times is on the quality of service to the service user and the recognition that the business is dependent upon its employees as its major asset.

Goldsborough/Medico provides a complete managed service of adult domiciliary care taking responsibility for the initial assessment to determine the service user's needs, through to the delivery of the care directly to the service user. This model of service means we are able to organise complex resource and delivery initiatives, managed locally, to best meet the needs of those requiring social care services such as domestic, practical and personal care. Whether care services are commissioned by public funds, through Local Authorities, or privately by the client or their relatives, our focus is to provide a locally based, trained workforce able to meet the needs of service users.

Goldsborough/Medico's three specialist learning disabilities businesses – New Horizons, Complete Homecare and Pathos – provide community support to people who have a mild, moderate or severe learning disability and additional complex needs such as autistic spectrum disorder, Asperger's syndrome, challenging behaviours, severe hearing impairment or compounding mental ill health. The service provided is designed to empower and support people with learning difficulties and mental illness to live their lives as fully and independently as possible.

Suffolk NVQ operates within Goldsborough/Medico as its training provider offering all levels of NVQ qualifications to the care worker population. In addition the business provides training and assessment to Local Authorities and independent care providers enabling care workers, managers, mentors, assessors and internal verifiers to receive the formal qualifications they require.

Our people

We have clearly defined values and standards for the care services that are delivered within the local communities. Our employees receive support through systems, policies,

procedures and training with senior staff and managers monitoring compliance to ensure that the service is in keeping with the needs of our service users.

We ensure our team maintain excellent service delivery in all aspects of care provision by focusing on the training and development of all staff, based on skills development, competency audits and taking into account particular interests and career aspirations. The company has introduced a new appraisal and development process that aligns to our business strategy and priorities but differentiates needs and requirements across employee groups and roles.

Country Cousins and Patricia White's

Our business model for both Country Cousins and Patricia White's is based on an agency service working for privately funded clients to facilitate live-in support and care services.

This model has developed over the years to give clients a service that removes the stress of trying to source care personnel in a market with high levels of temporary placements and staff turnover.

The nature of the live-in market places high demands on both businesses in matching the needs of clients with the characteristics of our care personnel. The reputation of both Patricia White's and Country Cousins for satisfying clients' needs has been, and continues to be, the key platform for the ongoing development of the businesses. This is evident in the high level of referrals both business teams receive from existing service users.

The markets that the two businesses service, whilst similar in some areas, are different in others, and as such we see significant future benefits from retaining the separate operations. This will facilitate targeted marketing activity for key consumer markets, whilst also ensuring that the brand value built up in terms of customer referrals and brand loyalty is retained.

Country Cousins operates on a national basis, but with a higher concentration of clients in the South and South East. Clients very much value their independence in their own home and see live-in care as the favoured route to achieve this goal. Clients place a high value on Country Cousins' ability to provide temporary, intermittent, or long-term solutions to their varying needs.

Patricia White's clientele are mainly resident in London and the South East. Many service users have had previous experience of using live-in domestic help services and are keen to see this complemented by live-in care support. Through time, some of our clients develop requirements for two or three live-in carers together with further support services. In addition to live-in care, Patricia White's has also developed services for clients who wish to receive home visits of between one and 12 hours for non-residential care.

"My care worker has become a best friend to me. She bothers to listen, which people don't always do to old people. She is a delight to open the door to, always smiling and cheerful. She brings sunshine into my home every time she comes, even though it may be pouring down with rain. Thank you for letting her look after me."

Service user, Herefordshire

Social Care – review of the year

Operating profit in Social Care (including Carewatch) for the year increased by 9.6% from £10.4m to £11.4m, despite an 8.2% fall in revenue from £124.2m to £114.0m.

Goldsborough/Medico

2008 was a challenging year as Local Authorities faced increasing budget constraints. This meant that fewer hours were being commissioned, which had a direct impact on the number of hours delivered. This, combined with the continued challenges in care worker recruitment, meant that 2008 saw a 9% reduction in the overall volume of hours being delivered. Withdrawal from an unprofitable contract in Harrow, which had generated revenue of £2.9m and the fact that the financial year 2007 contained 53 weeks, worth £1.8m of revenue, also contributed to this overall volume decline. Nonetheless, many Local Authority contracts were either won or retained in 2008 which will help stimulate growth in 2009. 14.5% of all hours delivered were to private patients, a sector of the market which is also increasingly attractive.

In response to the fall in volume, a critical review of costs has been undertaken and the business continues to seek to ensure that all costs are efficiently managed.

The acquisitions made in 2007 contributed revenue of £10.4m and operating profit of £1.5m in 2008. All the acquisitions have now been fully integrated into the Goldsborough/Medico network but have continued to retain the benefit of the local market presence they had at the time of acquisition.

The branch network is well supported by several central support functions who actively work with the branches on a day-to-day basis to ensure that a positive teamwork approach is applied to all our working objectives. A strong emphasis is placed on ensuring that the support functions are available to enable the branches to operate as effectively and efficiently as possible without compromising the quality of service being delivered.

Care worker recruitment has always been a significant challenge for businesses in this sector, given the vocational nature of the work. However, the current economic climate may lend itself to an increased number of people seeking employment in the care sector and towards the end of 2008, the recruitment pipeline started to see a marked improvement in applications. Goldsborough/Medico is well placed to take full advantage of this opportunity with a restructured training function and a renewed approach to its care worker recruitment and retention strategy.

Goldsborough/Medico has continued to improve its quality ratings across all its operations working with the commissioning bodies of England, Wales and Scotland. Our Head of Quality is directly accountable for overseeing quality matters and works closely with all business units. Our CSCI 2007/2008 report highlights excellence at promoting the privacy and dignity of people and improved performance in our branches from 91% to 96% achievement of the key national minimum standards.

Country Cousins and Patricia White's

The past year has seen both businesses enhance their services and capability. Focus from the operations teams has centred on ensuring new client development is at the forefront of their business initiatives in terms of advertising, new enquiry fulfilment, and client follow up.

The market sector of home care for the elderly in which both businesses operate is impacted by the reality of elderly clients dying. Year to year these client deaths are usually at a level below client recruitment levels but Patricia White's has experienced a period over the last 18 months where there has been a much higher than usual level of loss of long standing clients.

This higher level of loss of long standing clients has had a disproportionate impact on the revenue of Patricia White's and highlights that a strategic focus needs to be on regular client development to ensure future growth is able to compensate for future losses.

Overall, the profitability on both businesses improved over 2007 despite the net client losses at Patricia White's.

Effective team motivation, and tight control over costs have helped to ensure both businesses are well positioned to take full benefit from the growth potential that an increasing ageing population presents for such live-in care services. The effect of the current economic conditions on the value of savings and stock market investments has to date shown little impact on our business, although this may slow progress in future new client development.

The outlook for this sector of our business remains encouraging after a very positive start to 2009 and it remains a potentially strong driver of future profit growth.

Carewatch

The Carewatch business was sold at the beginning of October 2008. Prior to disposal, it had contributed £9.5m of revenue (£9.7m in the same nine-month period of 2007) and £3.3m operating profit (£3.4m in the same nine-month period of 2007). Revenues and operating profit for the full year 2007 had been £13.1m and £4.6m respectively.

*"The prompt action by the nurse
and doctor probably saved my life."*

Patient, Sheffield

Primary Care – our markets and services

Primary Care is usually the first point of contact for patients when their GP practice is closed. The majority of our staff working within primary care are clinicians, and include, amongst others, GPs, nurses, health visitors, dentists, opticians and pharmacists.

The major elements of our customer base are Primary Care Organisations (PCOs), which include Primary Care Trusts (PCTs) in England and Local Health Boards (LHBs) in Wales, who plan and commission health services for their local communities. The responsibility of PCTs/LHBs is to ensure that adequate, accessible and relevant health services are provided to their local communities, embracing hospitals, dentists, mental health services, walk-in centres, patient transport, population screening, pharmacies and opticians. They are also responsible for making certain health and social care systems work together for the benefit of patients.

Services offered

Out-of-hours – our Primecare business provides services out of business hours to GPs and dental patients, which are commissioned by the PCTs and LHBs. The GP's patients are redirected to Primecare emergency and/or unscheduled care services. Through a rigorous clinical governance process we determine the most appropriate course of action and then organise and manage the services for that person. This may result in telephone advice, an appointment to attend a Primary Care Centre (PCC), or a visit by a doctor in the patient's own home.

In-hours services – Primecare provides in-hours services to support PCTs in helping patients access urgent care dental and primary care services. Our offerings range from telephone answering and advice to the provision of full packages of care to meet local needs. Our ability to integrate disparate elements of services, provided by Primecare and other organisations, has enabled us to deliver integrated urgent care services to PCTs in line with their strategic direction.

Working with Accident and Emergency departments – in several areas Primecare works in partnership to ensure that patients who visit A&E with a primary care condition, are treated by primary care clinicians. This may take place either within the department or in an urgent care facility on site, generating system savings and supporting the education of patients as increasingly complex urgent care models are in place.

Protected learning – providing in-hours cover to GP practices. The need to address training and management requirements is key to any successful GP practice. However, it is not always possible to address these issues during normal practice hours. Primecare's protected learning service meets this need by providing cover to practices including all call handling, triage and consultations.

Special allocation schemes – protecting GPs and their staff by caring for individuals removed from practice lists. Working in partnership with PCOs and GP practices, Primecare provides a vital secure service to deliver general medical services to difficult, potentially violent patients, consistent with responsibilities placed on PCOs by the Department of Health.

Secure and Police – our Secure and Police businesses provide clinical services to secure establishments and police forces, supplying doctors, nurses and other healthcare and support staff who have the expertise to provide the complete range of surgery and on-call services required by our customers. Services are tailored to the needs of each establishment or police force and delivered through a carefully chosen combination of GP and nurse-led care.

Primary Care – review of the year

Excellence in service delivery

Our Primecare business delivers excellent levels of service performance, which were maintained throughout 2008 in all our key services. Despite a winter period which was the most challenging for our NHS customers for many years, we delivered service standards during late 2008 above those achieved in 2007. More significantly, a national review of Urgent and Emergency care by the Health Care Commission demonstrated that Nestor, through its Primecare brand, is the highest performing major provider of out-of-hours health services. The report revealed that 80% of the PCTs who achieved the top two categories are working with Primecare, with our services being provided to one in four of the top 40 PCTs. We believe the study demonstrates both our excellent levels of performance and our ability to work collaboratively with other local health providers.

This strong performance helped secure a number of contract extensions (in both time and scope) during 2008, including the renewal of our contracts in Wales with the Vale, Neath, Port Talbot and Bridgend Local Health Boards. These, together with the renewal of the Carmarthen out-of-hours contract, ensure we continue our strong operation in Wales for at least the next three years.

A significant number of our English out-of-hours contracts are due for renewal or extension during 2009 and success in extending the duration of these contracts is a key priority. There was important and positive news in the last weeks of 2008 as we secured renewed contracts to provide out-of-hours services for Herefordshire and Mid-Essex PCTs for a further five years.

In our Police services, 2008 saw further improvements in our operational delivery performance and relationships with our customers are strong. A new two-year contract with West Midlands Police has recently been secured with the potential for a three-year extension.

Delivery of new business opportunities

We have been successful in two new areas of business during 2008 and both provide significant opportunities in future years.

Services for the insurance industry – Nestor now provides, under a new three-year contract, tele-medical consultation services to Legal & General. Our skilled clinical team undertake telephone based consultations with applicants for health related insurance services in support of the underwriting process. This new service is performing and developing well. We see further growth potential in 2009 and beyond for this and related services.

New GP health centres and walk-in services – during 2008, the NHS in England undertook a significant procurement process to secure over 200 new GP health centres. This procurement was one of the key elements of Lord Darzi's review of NHS services and aims to improve access to primary care services, in addition to introducing a more competitive market for GP services.

In February 2008, Primecare was proud to open the first 8am to 8pm GP access centre ahead of this programme in the North Ormesby Healthcare Village in Middlesbrough, providing patients with a wholly new experience, many months ahead of the national development of these services.

During 2008, Nestor has been one of the most active commercial bidders to run these new services. They give an opportunity to establish a brand new service line for us, with potential for profit growth in future years. The new services will open 8am to 8pm, seven days a week and provide services to registered patients and also walk-in patients who choose to attend that practice. There is strong potential to expand the scope of services delivered in each practice as the contract develops.

Whilst the national procurement process is not yet complete, Nestor has now signed a five-year contract to operate the Cornwall GP-led health centre and we expect to run a further four health centres across the country during 2009. All the new services are scheduled to open in 2009, with contracts running through until 2014. Nestor, in operating these new services, will become one of the larger commercial providers of GP practice services and we see strong future growth potential as the market for GP practice services develops and matures.

Corporate and social responsibilities

Employees

The degree of change undergone by the Group and its markets continued to place significant strain and responsibility on all those involved and the dedication to the delivery of the Group's services remains unstinting.

The Group believes that communicating effectively with its employees in all aspects of its business, particularly regarding the economic and financial factors affecting the Group's performance, is important to its future success. In addition it is the Group's policy to encourage employees to participate in its success, through a variety of performance-related incentive arrangements, including the provision of savings-related share option schemes.

Diversity

The Group recognises its responsibilities in this key area of working life and is continually taking steps to balance society and employee needs with its business requirements. It has a wide and varied employee base with significant numbers of female employees, many at senior management level, as well as a significant employee base of individuals who come from ethnic minority groupings. The Group's operational working practices and policies continue to comply with the Disability Discrimination Act 1995.

Health and safety

The Board is aware of its responsibilities towards its employees and all users of the Group's services in health and safety matters. It recognises its responsibility for the setting and monitoring of appropriate policies, guidelines and practices in the formal Schedule of Matters Reserved for the Board's consideration.

The Group's Head of Quality is directly accountable to the Board overseeing safety matters and works closely with the Group's business units to roll out revised policies and reporting arrangements. Day-to-day advice is provided by the Group Health and Safety Manager and by an external consultancy. An ongoing training programme supports the effective implementation of this process, which is based on a comprehensive series of risk assessments and reporting arrangements. During the year all health and safety matters remained integrated into the Nestor Quality Management System.

Clinical governance

The Group remains committed to a robust approach to the identification and management of clinical risk with clear, consistent and appropriate reporting across the business. Primary Care continues to meet current NHS standards including Standards for Better Health and National Quality Requirements for Out of Hours Services. This directly contributed to 10 of its 12 PCT customers achieving a 'best' or 'better' performer rating in the 2008 Health Care Commission review of Urgent and Emergency care.

Primary Care continues to adopt a safe and incremental approach to innovative service development looking to national and international best practice to drive continual improvement in patient services. It looks to add to its service development portfolio through engagement with national patient safety initiatives and patient experience forums. In line with its increasingly diverse range of healthcare services, which now include GP practices and urgent care services, our clinical governance systems remain paramount in continually assuring patient safety and patient satisfaction.

Governance within Social Care continues to comply with the regulatory requirement of the Commission for Social Care Inspection and the Group is actively working with the Care Quality Commission in anticipation of a common regulatory regime in 2010.

Environmental policy

As a service-based organisation, with no manufacturing, limited transportation facilities and no freehold properties, the Group's exposure to environmental risk is limited, as is its ability to control the environmental impact of its activities. During the year, the Group continued to refine the formal environmental policy adopted by the Board in 2000, with a particular focus on matters relating to the clinical services provided by the Group. The policy document, which is directed at minimising the potential impact of the Group's operations on the environment, provides that the Board retains ultimate responsibility for setting and monitoring its policy on environmental matters.

Financial review

Disposal of Carewatch business

In October 2008 the Group disposed of its Carewatch franchise business for a consideration of £37.0m less associated expenses of £1.4m. The resulting net profit on disposal amounted to £31.1m. In the year, Carewatch contributed £9.5m to Group revenue (2007: £13.1m) and £3.3m to operating profit (2007: £4.6m) before allowing for any allocation of central costs.

Revenue

Group revenue decreased by 9.1% to £163.3m with Social Care recording a reduction of £10.2m (8.2%) to £114.0m, and Primary Care a reduction of £6.1m (11.0%) to £49.3m.

Within Social Care, the disposal of Carewatch reduced year on year revenues from this business by £3.6m. The remaining part of the Social Care business therefore saw a decrease in revenues from £111.1m in 2007 to £104.5m in 2008, a decrease of £6.6m or 5.9%. This decrease is partly due to the fact that the prior year contained 53 weeks rather than 52 weeks, which accounts for £1.8m of the decrease. Revenues also fell following the termination of a significant (albeit loss-making) contract in Harrow, which contributed circa £2.9m per annum.

The reduction in revenue in Primary Care is attributable to the loss of a number of out-of-hours contracts with PCTs, most notably in Leicester and Clacton, who for the most part have decided to internalise a service that had previously been outsourced to our Primecare business.

Operating profit and margins

Operating profit before gain on disposal of operations, interest and tax, totalled £5.3m compared to £13.1m in 2007, a reduction of £7.8m, or 59.5%.

The results for 2008 have borne the cost of a number of exceptional charges, totalling £7.5m. Following the disposal of the Carewatch business, a rationalisation exercise was undertaken to maximise the efficiency of the central administrative cost base. As a result, a number of redundancies were announced, at a total cost for the year of £0.8m. A further £0.6m of termination costs were incurred in relation to the outgoing Chief Executive, Stephen Booty, who stood down in April.

In the year a charge of £3.5m was incurred in respect of two past clinical incidents where it now seems likely that a liability will be incurred. This is discussed in detail in note 24.

The Group holds a provision in respect of onerous lease obligations for properties that are not currently occupied by the Group. In the year the directors reviewed the assumptions on the prospects for future lettings of the portfolio. As a result, due to the depressed state of the property market, the provision was increased by an amount of £2.6m.

The results for 2007 bore £0.7m cost of the arrangement fee for the change in banking covenants announced in December 2007.

Operating profit before accounting for any of these exceptional items is therefore £12.8m in the current year compared with £13.8m in 2007.

In addition to the exceptional operating items discussed above, the Group also bore an exceptional finance charge in the year in relation to the revaluation of its derivative financial instruments in the amount of £2.1m. This is discussed more fully below.

Despite the reduction in revenue, the operating profit of Social Care has improved year on year increasing from £5.8m in 2007 to £8.1m in the current year, an increase of £2.3m or 39.7%. This is due mainly to increased cost control and improved efficiencies across the division.

Operating profits within Primary Care decreased in the year from £3.4m in 2007 to £1.4m in the current year, a decrease of £2.0m or 58.8%. This reduction is due mainly to the expiry of a number of out-of-hours contracts, with the biggest impact being from the loss of the contract in Leicester, and the significant investment made in enhancing the divisional management team, particularly in Business Development, to better address the changing market requirements and the increase in tender activity.

Profit before tax

Profit before tax amounted to £30.4m (2007: £8.9m), the increase being due to the issues discussed above.

Taxation

The tax charge for the year was £1.0k (2007: £3.1m). This reduction is due to a number of factors as follows. The average standard tax rate in the year fell to 28.5% (from 30% in 2007) due to the reduction in the corporation tax rate to 28% in April 2008. Items not chargeable to corporation tax also included the gain on the disposal of the Carewatch business, where the capital gain incurred is not expected to result in any material liability due to the availability of capital losses.

Earnings per share

The basic earnings per share were 26.9p (2007: 5.4p), reflecting in particular the impact of the gain on disposal of the Carewatch business.

Cash flow and borrowings

Closing net borrowings for the Group amounted to £19.0m (2007: £58.0m), a net inflow of £39.0m, which includes the net proceeds from the disposal of the Carewatch business of £35.6m. Deferred consideration paid in the year in relation to acquisitions made in 2007 amounted to £0.8m.

Cash flow from operations totalled £10.9m (2007: £8.0m), with a decrease due to the lower level of profitability being more than offset by a positive working capital impact. The cash flow shows an increase in trade payables and a reduction in trade receivables offset by a reduction in provisions, inclusive of additional pension scheme deficit reduction payments of £3.1m in the year.

At the year-end debtor days outstanding were 39 days compared to 43 days at the end of 2007. This is mainly due to the resolution of a number of contractual and service-related issues in Social Care, which delayed payments at the prior year-end.

Net capital expenditure was £0.3m (2007: £1.5m) with no significant capital projects being undertaken in the year. Capital expenditure is expected to remain below the level of depreciation for the foreseeable future.

Dividends, interest and corporation tax payments amounted to a total of £6.5m (2007: £9.9m).

Equity shareholders' funds

Equity shareholders' funds increased from £47.2m reported in 2007 to £72.8m, largely attributable to the net profit on disposal of £31.1m generated from the sale of the Carewatch business in the year. This gain is offset by other losses for the year, including actuarial losses arising in the defined benefit pension schemes, and by dividends paid to shareholders.

Pensions

In accordance with IAS 19 Employment Benefits, the Group is required to compare the market value of its two defined benefit pension schemes' assets at the year-end with the actuarial liabilities of those funds. At 31st December 2008, the pension funds' assets amounted to a total of £26.5m (2007: £34.7m) compared with total liabilities of £35.2m (2007: £41.1m), a net aggregate deficit of £8.7m (2007: £6.4m).

Treasury management and financial instruments

Financial instruments include all assets and liabilities of a financial nature such as cash, loans, finance leases, overdrafts and long-term liabilities. All such instruments play an important part in the operations of the Group enabling it to operate smoothly and efficiently and to pay its obligations as they fall due. They also enable the Group to fulfill its investment strategy including making appropriate acquisitions. The Group's objective is to use financial instruments to minimise the cost of capital at an acceptably low financial risk and to maximise flexibility to take advantage of investment and acquisition opportunities as they arise.

The Group is a UK business without exposure to foreign exchange risks.

The main risks arising from the Group's financial instruments are interest rate and liquidity risks. The Board considers each of these risks on a regular basis and, with the exception of the position as at 31st December 2008 with regard to derivative financial instruments, the Group's stance towards each of these risks has remained substantively unchanged.

The Group started the year with £60.0m of committed borrowing facilities, plus uncommitted overdraft facilities of £10.0m. Immediately subsequent to the disposal of the Carewatch business, the Group's facilities were reduced to £33.0m, comprising £23.0m of committed borrowing facilities and £10.0m of uncommitted overdraft facilities. On 31st December 2008, the total facility reduced again to £29.0m. The committed borrowing facility now stands at £19.0m whilst the overdraft facilities of £10.0m remain in place. The overall facilities agreement remains in place until December 2009.

At the end of the year, the Group had borrowings less cash of £19.0m (2007: £58.0m) and undrawn committed borrowing facilities of £5.8m. It is, and has been throughout the year, the Group's policy that no trading in financial instruments is undertaken, subject to the circumstances described below.

Under the banking facilities, the Group has entered into hedging arrangements which have the effect of fixing £60.0m of its borrowing within a range of interest rates between 4.50% and 7.00% until November 2010. However, since the disposal of Carewatch in October 2008, which generated gross proceeds of £37.0m, the Group's borrowings have been considerably lower than the £60.0m upon which the derivatives contracts are notionally based. No cash payments have been made to cancel the proportion of the contract required to bring it back in line with the level of borrowings as, in the opinion of the directors, the outflow required to settle this liability would not have been in the interests of the Group.

Financial review continued

Controls

Financial and operational controls remain robust across the Group with considerable attention paid to the control environment and balance sheet management on a monthly basis.

Ethical matters

The Board has a formal Code of Business Conduct, covering all the businesses in the Group, which has consolidated all of the various codes previously applicable to them. The Code provides comprehensive guidelines to all employees as to the standard of business ethics expected from them as representatives of the Group. It also recognises the importance to the Group of operating to the highest possible ethical standards, bearing in mind the nature of the services offered by Group companies and the needs of their clients.

The Group operates two comprehensive whistleblowing policies, in respect of clinical issues and general operational and financial matters.

At the Group's Business Resource Centre in Hatfield, most gifts received by members of staff from suppliers and potential suppliers are auctioned amongst all staff (where practicable) and the proceeds of such auctions are donated to the Group's Charity of the Year.

All senior managers are required to declare, on an annual basis, any hospitality received during the year in their capacity as employees of the Group and to disclose any interests they may have in connected or competing organisations. These declarations are monitored by the Group Company Secretary and reported to the Board at the end of each year.

All Board members are required, once a year, to submit their annual expense claims to the scrutiny of the entire Board.

Martyn Ellis
Finance Director

10th March 2009

Board of directors

John Rennocks Chairman

(63), joined the Group and was appointed to the Board as Chairman in October 2003. A chartered accountant, he is also non-executive chairman of Diploma plc and holds a number of non-executive appointments in listed and unlisted companies including Inmarsat plc and Babcock International Group plc.

Previously, he was Executive Director, Finance of Corus Group plc (formerly British Steel plc) between 1996 and 2001. From 1989 to 1996 he was Finance Director of Powergen plc and prior to that Finance Director and Company Secretary of Smith & Nephew plc.

He is Chairman of the Board's Nomination Committee and a member of its Audit and Remuneration Committees.

Martyn Ellis Finance Director

(52), joined the Group and was appointed to the Board in May 2003. A cost and management accountant, he previously held positions as Finance Director of TeleCity plc, Whitecroft plc, Mann Egerton and Campbell Foods (UK).

Roger Dye Non-executive director

(57), was appointed to the Board as a non-executive director in January 2004. A chartered accountant, he was Finance Director of the Davis Service Group Plc from August 2000 and became its Chief Executive in May 2005. A UK public company director since 1987, he has been Group Finance Director of Transport Development Group plc, Cray Electronics plc and Domino Printing Sciences plc.

He is Chairman of the Board's Audit Committee and serves on its Nomination and Remuneration Committees.

Sir Andrew Foster Non-executive director

(64), was appointed to the Board in January 2004. He has had a long and distinguished career in public service, having served as Chief Executive of the Audit Commission for England and Wales between 1992 and 2003. Other previous appointments include Deputy Chief Executive of the NHS and Director of Social Services for North Yorkshire County Council. He is now Deputy Chairman of the Royal Bank of Canada Europe Ltd, Chairman of the Commonwealth Games Committee for England, a non-executive director of the Sports Council and has a range of positions in the public and private sectors.

He is the senior non-executive director and Chairman of the Board's Remuneration Committee. He is also a member of its Nomination and Audit Committees.

Directors' report

The directors are pleased to present their report and the audited financial statements for the year ended 31st December 2008.

Principal activities and business review

Nestor Healthcare Group plc is the holding company of a group of companies in the social care and primary care sectors.

Its principal activities are organised into two business units. These comprise:

- Social Care – the provision of home and social care personnel and services through a network of branches across the UK; and
- Primary Care – the provision of integrated out-of-hours healthcare, providing advice and treatment to patients; and the provision of forensic medical clinical services to secure establishments and police forces.

Summary results for the year were as follows:

	2008	2007
Revenue	£163.3m	£179.6m
Operating profit before exceptional charges	£12.8m	£13.8m
Exceptional charges	(£7.5m)	(£0.7m)
Operating profit	£5.3m	£13.1m
Other gains – disposal of operations	£31.1m	–
Net interest	£(3.9m)	£(4.2m)
Fair value loss relating to derivative contracts	£(2.1m)	–
Profit before tax	£30.4m	£8.9m
Basic earnings per share	26.9p	5.4p

Segmental results were as follows:

	2008 Revenue	2008 Operating profit	2007 Revenue	2007 Operating profit
Social Care	£114.0m	£11.4m	£124.2m	£10.0m
Primary Care	£49.3m	£1.4m	£55.4m	£3.1m
Total before exceptional charges	£163.3m	£12.8m	£179.6m	£13.1m

Total equity at 31st December 2008 was £72,764,000 (2007: £47,248,000).

The Chairman's statement, operating review and financial review on pages 2 to 18 provide a further business review and commentary on the Group's activities, trading results and future developments.

Results and dividends

A final dividend for 2007 was declared at 1.00 pence per share, costing £1,128,000 and paid in July 2008. No interim dividend for 2008 has been paid.

Total dividends paid in the year ended 31st December 2007 were 3.00 pence per share, costing £3,382,000.

The directors now recommend a final dividend of 1.50 pence per ordinary share for the year to 31st December 2008, to be paid to shareholders on 5th June 2009.

Directors

The directors who served during the year were Stephen Booty, Roger Dye, Martyn Ellis, Sir Andrew Foster and John Rennocks. All the directors served throughout 2008 except Stephen Booty who left the Group on 30th April 2008.

In accordance with the Articles of Association, Martyn Ellis will retire by rotation at the Annual General Meeting and, being eligible, will offer himself for re-election.

Martyn Ellis has a service agreement with the Company, further details of which are provided at page 29 and 30 in the remuneration report.

Directors' interests

All directors' interests, including details of shareholdings, are set out in the remuneration report of the Board on pages 30 to 32.

Share capital

The Company has only one class of capital, namely ordinary shares of 10 pence each. All issued shares carry voting rights. As at 10th March 2009 the authorised capital of the Company is £20,000,000 comprising 200,000,000 ordinary shares of 10 pence each. At the same date the issued share capital is 112,844,209 ordinary shares of 10 pence each, which also represents the total voting rights at the same date.

There are no restrictions on the transfer of shares or any other securities in the Company; no special rights with regard to control of the Company; no restrictions on voting rights; no agreements known to the Company that could result in restrictions on the transfer of securities or on voting rights; no agreements to which the Company is a party that would take effect, alter or terminate upon a change of control of the Company following a takeover bid; and no agreements between the Company and its directors or employees providing for compensation for loss of office or employment as a consequence of a takeover bid.

Resolutions to allow the directors to issue and also to buy back shares are to be proposed at the Annual General Meeting.

Substantial shareholdings

At 5th March 2009 the Company had been notified of the following interests of 3% or more in its ordinary share capital:

Shareholder	Number of shares	Percentage of issued share capital
Schroder Investment Management	32,808,492	29.07
Gartmore Investment Management	17,106,946	15.16
UBS	8,472,787	7.51
GAM	7,947,400	7.04
JO Hambro Capital Management	7,718,828	6.84
Legal & General Investment Management	5,010,719	4.44
SG Asset Management	4,169,910	3.70
Merchant Securities Group	3,487,602	3.09

Details of the authorised and issued share capital of the Company during the year ended 31st December 2008 are given in note 25 to the financial statements.

Charitable and political donations

No charitable or political donations were made during the year (2007: £nil).

Financial instruments

Note 23 to the financial statements contains disclosure on financial instruments.

Strategy

The business strategy adopted by the directors is to continue to focus on Social Care and Primary Care, and in particular to:

- continue to win new contracts with Local Authorities, Primary Care Trusts, Police Authorities and secure institutions; and
- explore opportunities to provide additional services to existing and new customers.

Directors' report continued

Key performance indicators

When monitoring the performance of the Group and of the individual businesses within it, the directors continue to review several key performance indicators (KPIs). The more important ones used are:

Applicable across the whole Group:

- Revenue
- Operating profit
- Debtor days.

Applicable to the Social Care business:

- Volume – hours
- Commission per hour
- Gross profit
- Gross profit per hour
- Average number of care workers paid per week
- Average hours per care worker paid per week
- Ratio of care worker hours to branch staff hours.

Applicable to the Primary Care business:

- Doctor pay
- Nurse pay
- Other operating costs
- Cost per doctor hour
- Ratio of doctors to nurses
- Cost per doctor visit and per nurse visit
- Consultations per doctor hour.

Actual KPIs at the Group level were as follows:

	Year to 31st December 2008	Year to 31st December 2007
Revenue	£163,300,000	£179,600,000
Operating profit before exceptional charges	£12,800,000	£13,800,000
Debtor days	39	43

Principal risks and uncertainties

There are a number of potential risks and uncertainties, which could have a material impact on the Group's long-term performance and could cause actual results to differ materially from expected and historical results. These are described below. The Group's risk management policies and procedures are also discussed in the Corporate governance statement. Further assurance is provided by a strong control and compliance environment provided by, inter alia, clinical governance and quality assurance departments.

Loss of revenue and profits from contracts with Primary Care Trusts or Local Authorities:

A substantial proportion of revenues and profits derive from government funded bodies such as Primary Care Trusts and Local Authorities. Whilst the Group expects that such bodies will continue to demand its services, there exists the risk that budget constraints or other cuts in government spending could lead to a reduction in revenues earned. Many of these contracts also cover multiple years, exposing the Group to the risk that increases in costs over the period may not be matched by a corresponding increase in revenues. The directors believe that such a loss of revenue could in large part be mitigated by reductions in the cost base.

Competition:

The Group operates in a highly competitive market. If competition to the Group increases due to new entrants to the market or to downward price pressures, this may limit the Group's ability to win or renew contracts when tendering and could reduce market share and profit levels. This risk is mitigated to some degree by relatively high barriers to entry such as rigorous quality standards, high levels of regulation and the predisposition of the tendering process to be long and costly.

Technological innovation:

The advancement of new technologies and the increased uptake of existing technologies into customers' own homes may reduce the demand for the services provided by the Group. This risk is mitigated by constant monitoring of and adaptation to such change.

Regulatory environment:

The Group's activities are subject to a high level of regulation and inspection by various bodies. The costs of compliance with these regulations could be impacted by the introduction of new regulations or legislation. The Group is also at risk from the negative effects of any non-compliance, which may affect either its profits or reputation or both. Inspections by regulators are carried out on a regular basis. These risks are mitigated by a rigorous process of internal control over quality and compliance.

The need to procure suitably qualified staff:

The Group's performance is in part dependent on its ability to recruit and retain suitably qualified doctors, other medical professionals and care workers and to comply with external regulation in this regard. Failure to comply with regulations or to retain the correct quality and quantity of staff may lead to loss of customers, penalties or loss of reputation. This risk is mitigated by rigorous checks on new and existing employees, and by continuing to devote significant resources to all recruitment initiatives.

Loss of reputation:

The nature of the business is such that from time to time clinical or other incidents can arise which can lead to claims for damages being made against the Group on the grounds of negligence or other reasons. Such claims could lead to financial loss in terms of damages, or to loss of reputation. In the majority of cases such incidents, having been notified, do not in fact lead to a claim being made. Even if claims are made they may be laid against parties other than the Group. If claims are ultimately laid against the Group, this risk is mitigated by the maintenance by the Group of appropriate liability insurance, subject to excesses, to cover the financial loss of claims. Further mitigation is provided by rigorous checks on new and existing employees and sub-contractors, and especially by the utilisation of rigorous clinical governance and other operating standards and procedures.

Funding and going concern risk:

The Group's committed banking facilities expire in December 2009, that is within 12 months from the date of this Annual Report and financial statements contained therein, which gives rise to a level of uncertainty. However, the Board is confident that committed banking facilities can be renewed no later than December 2009. In forming this view the Board has discussed, and will continue to discuss, with its bankers the prospects for the renewal.

The directors consider that the Group's balance sheet has been significantly strengthened following the disposal of the Carewatch business in October 2008 and the consequential reduction in debt levels. The directors can in turn confirm that, after reviewing this updated financial position and cash flows of the Group and of the Company, they have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. This expectation takes into account the current and projected trading and cash flows of the Group in the light of the committed banking facilities available to it.

Pension schemes' deficits:

The Group has two defined benefit pension schemes, into which the Group is obliged to contribute to make good the deficits in these schemes. Any necessary increase in employer contributions to the Group's pension schemes to make good the deficits in these schemes may have an adverse impact on the Group's financial condition. This risk is mitigated by an existing agreement of a schedule of contributions with the Pensions Regulator.

Disabled employees

It is the Group's policy that disabled persons should be considered for employment, training, career development and promotion on the basis of their abilities and aptitudes in common with all employees.

The Group applies employment policies that are fair and equitable for all employees and which ensure that entry into and progression within the Group are determined solely by application of job criteria and personal ability and competency.

Full and fair consideration (having regard to the person's particular aptitudes and abilities) is given to applications for employment and the career development of disabled persons. The Group's training and development policies make it clear that the Group will take all steps practicable to ensure that employees who become disabled during the time they are employed by the Group are able to continue to perform their duties.

Employee involvement

The Group attaches considerable importance to ensuring that all its employees are provided with information concerning them as employees, particularly the economic and financial factors affecting the Group's performance and the market in which the Group operates. Involvement of employees in the Group's performance is also encouraged by the availability of performance-related bonuses as well as share option schemes, which are described in more detail elsewhere in this report.

Directors' report continued

Internal circulars and newsletters are issued on a regular basis and consultation between management and staff is an ongoing process. Employees are consulted on issues directly affecting them wherever practicable. Further details of the Group's policies and practices relating to employee involvement may be found on page 15 of this report.

Creditor payment policy

It is the Group's policy to have appropriate terms and conditions for transactions with suppliers, ranging from standard terms and conditions to those which have been specifically negotiated, and that in the absence of dispute, payment will be made in accordance with those terms and conditions and conforming to the CBI Code of Best Practice; copies are available from the CBI at Centrepont, 103 New Oxford Street, London WC1. At 31st December 2008 trade creditors represented 13 days' purchases (2007: 10 days).

The directors' reports of the Group's UK operating companies give information about their creditor payment policies as required by the Companies Act. The Company, as a holding company, does not itself make any relevant payments in this respect.

Auditors

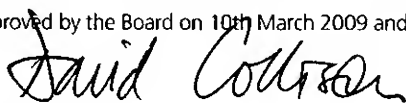
Resolutions proposing the appointment of BDO Stoy Hayward LLP, Chartered Accountants, as auditors to the Company and authorising the Audit Committee of the Board to determine their remuneration will be put to the Annual General Meeting.

Directors' responsibilities to the auditors regarding the financial statements

Each person who is a director at the date of approval of this directors' report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Approved by the Board on 10th March 2009 and signed on its behalf by:



David Collison
Group Company Secretary

Nestor Healthcare Group plc
Registered number: 1992981
Registered office: Allen House, Station Road, Egham, Surrey TW20 9NT

Directors' responsibilities

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets of the Company, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a directors' report and directors' remuneration report which comply with the requirements of the Companies Act 1985.

The directors are responsible for preparing the Annual Report and the financial statements in accordance with the Companies Act 1985. The directors are also required to prepare financial statements for the Group in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS) and Article 4 of the IAS Regulation. The directors have chosen to prepare financial statements for the Company in accordance with IFRS.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS. A fair presentation also requires the directors to:

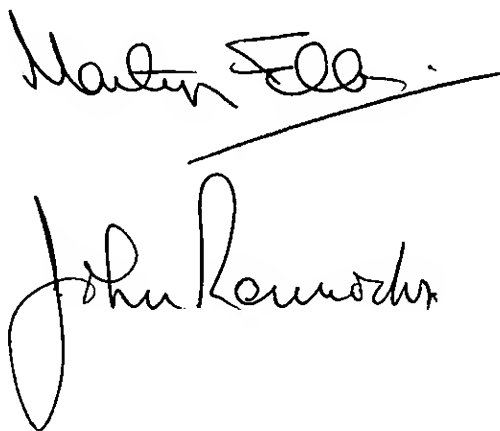
- consistently select and apply appropriate accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

Financial statements are published on the Group's website in accordance with legislation in the UK governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Group's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Directors' responsibility statement pursuant to DTR4

The directors confirm to the best of their knowledge that:

- the Group financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS) and Article 4 of the IAS Regulation and give a true and fair view of the assets, liabilities, financial position and profit and loss of the group; and
- the Annual Report includes a fair view of the development and performance of the business and the financial position of the Company and of the Group, together with a description of the principal risks and uncertainties that they face.



The image shows two handwritten signatures. The top signature is 'Martin Fido' and the bottom signature is 'John Kenworthy'. Both signatures are written in black ink and are positioned above a horizontal line.

Remuneration report

The Board is pleased to present its remuneration report for the year ended 31st December 2008. The report provides the information required by the Directors' Remuneration Report Regulations 2002 and the Listing Rules of the UK Financial Services Authority and describes how the Company and Group apply the principles of the Combined Code in relation to executive directors' remuneration. This remuneration report has been prepared by the Remuneration Committee; an ordinary resolution to approve it will be proposed at the Annual General Meeting on 1st May 2009. The vote will have an advisory status only and will be in respect of the remuneration policy and overall remuneration packages generally and will not be specific to individual levels of remuneration.

BDO Stoy Hayward LLP have audited the sections headed directors' emoluments, directors' pensions and directors' interests to the extent required by the regulations.

Remuneration Committee

The Board has delegated its powers to determine the Group's remuneration policy for senior executives, including executive directors, to the Remuneration Committee ("the Committee"), the members of which during the year were Sir Andrew Foster (Chairman) and Roger Dye, both of whom were regarded by the Board as independent non-executive directors, and John Rennocks (who was regarded by the Board as being independent on the date of his appointment). The Board has retained responsibility for setting the remuneration of the Company's Chairman since he currently serves as a member of the Committee.

The terms of reference of the Committee may be found on the Company's website. Further details relating to the Committee may be found on pages 34 and 35 of this report.

In determining its policy, the Committee has paid regard to the principles and provisions of good governance contained in the Code on Corporate Governance published in June 2006 ("the 2006 Code") and then the Revised Code on Corporate Governance published in June 2008 ("the Revised Code"), which supersedes the 2006 Code; and also to the Directors' Remuneration Report Regulations 2002. It has also received advice on executive remuneration from Hewitt New Bridge Street ("Hewitt NBS"), which during the year was retained by the Committee as its regular advisor. A copy of a statement relating to the terms on which Hewitt NBS is engaged by the Committee is available on the Company's website. The Committee also received assistance from Stephen Booty, the Group's Chief Executive until 30th April 2008 and from senior managers of the Group's Human Resources function, all of whom attended meetings of the Committee as required but not in respect of matters relating directly to their own remuneration.

The Company has also instructed Hewitt NBS to advise it on certain ad hoc matters during the year, for example in relation to the administration of the Company's share schemes.

Remuneration policy

The Committee's overall aim is to provide a package of remuneration which:

- is sufficient but no more than is necessary to attract, retain and motivate all of the Group's most senior management, including executive directors;
- rewards good performance with remuneration that is in line with that payable in broadly comparable businesses; and
- rewards exceptional performance in such a way as to align the executives' interests with those of the shareholders.

To that end, the Committee structures executive remuneration in two distinct parts: fixed remuneration of basic salary and benefits, and variable performance-related remuneration, in the form of a cash bonus and long-term incentives. Remuneration is structured so that the variable pay element forms a significant portion of each executive's package. During the year the remuneration policy was unchanged from that applying in 2007.

Basic salary and benefits

Basic salary is determined by reference to the responsibilities and performance of the individual directors during the year, taking into account experience and the rates of basic pay for similar roles in comparable companies. The Committee's overall aim is to ensure that the basic salary paid to the Group's senior executives is broadly in line with the median of that paid by comparable businesses (generally companies in the FTSE Small Cap Index), having particular regard to their size and complexity. Salaries are reviewed annually, normally in November or December of each year with any adjustments usually taking effect from 1st January in the following year, although in 2008 the review was deferred for three months. In 2009 the review date has reverted to 1st January. It is the Committee's practice to undertake formal market benchmarking of directors' and senior executives' salaries, with the assistance of Hewitt NBS, every two years. Executive directors' basic salaries were not increased in 2008 and therefore still ranged from £203,000 to £312,000 per annum, as in 2007 and also 2006. However, in the period May 2008 to September 2008 inclusive, the salaries of one executive director, Martyn Ellis, and certain other senior managers were temporarily increased by 10%; this temporary increase was granted to compensate them for the assumption of extra responsibilities in the period immediately following the departure from the Group of the previous Chief Executive, prior to the assumption of all aspects of the Chief Executive role by the Chairman. The Group additionally provides a range of benefits to executive directors, the most significant of which are a car cash allowance and pension benefits (full details of which are set out below).

Cash bonus

Each year, the Committee sets stretching bonus targets for each executive, aiming to achieve a balance between short-term and medium-term objectives. In 2008 and 2009, targets comprise overall Group performance criteria relating to profit before tax, which is considered to be the most appropriate financial target. No bonus is payable if the relevant financial targets are not met.

The maximum such annual bonus payable to executive directors is 80% of salary. Bonuses are not pensionable.

Long-term incentives

The Group currently operates two long-term incentive schemes, the Nestor Healthcare Group Share Option Plan 2002 ("the 2002 Plan"), which was adopted following approval by shareholders in 2002, and the Performance Share Plan (the "PSP") which was adopted following approval by shareholders in 2006. In proposing the schemes, the Committee took extensive advice from Hewitt NBS, sought and obtained the prior approval of a number of the Company's largest shareholders and complied with prevailing best practice relating to such arrangements.

A third such incentive scheme, the Long-term Incentive Plan (the "LTIP"), which had been adopted following approval by shareholders in 2002, has now lapsed. Awards had been made to executive directors in 2004 and 2005 for which the earliest vesting dates were 7th April 2007 and 11th May 2008, respectively, dependent on achievement of both total shareholder return ("TSR") and earnings per share ("EPS") targets over a single three-year period. None of these targets were achieved in either 2006 or 2007, so all of the matching awards made in 2004 and 2005, respectively, lapsed. No awards were made in either 2006, 2007 or 2008; nor will any such awards be made in future years as the LTIP has lapsed.

The Committee believes that share ownership by senior executives is an effective means of rewarding superior performance, since the interests of management and shareholders are thereby aligned. The Committee further believes that the provision of share schemes to the Group's managers should be structured in such a way as to encourage them to achieve the Group's long-term aims and that the Group's most senior managers, including executive directors, should be rewarded for exceptional performance with potentially significant rewards.

Once options have been exercised no restrictions are placed on future retention or disposal.

i. The 2002 Plan

Prior to 2006 it was generally the Group's policy to grant share options regularly, on a tiered basis, to a broad range of middle and senior management, including executive directors. Generally (though not always) options were granted annually to executive directors, to a value equivalent to one times salary, although in exceptional cases, where a key executive joined the Group, a higher limit was sometimes applied. In other years, a lower limit had also been applied. In 2005, 1,559,057 share options were granted under the 2002 Plan, but none have been granted since then.

"Normal" options

For "normal" options granted to the Group's most senior executives, including all executive directors, a range of normalised EPS performance targets applies to grants as shown below:

	Average growth required in EPS
1st third of an option	RPI + 5% pa
2nd third of an option	RPI + 6% pa
Final third of an option	RPI + 10% pa

In all cases, performance is tested over a three-year period. Since January 2004, the Committee has resolved that there will be no opportunities to retest performance for grants made after that date.

EPS was chosen as the relevant benchmark for the measurement of the Group's performance since the target requires substantial improvement in underlying financial performance before options may be exercised. This complements the requirement inherent in an option, which is to grow the share price. The range of EPS targets are considered to be appropriately stretching, generating higher potential reward levels for higher levels of financial performance. All awards granted in 2005 have lapsed as a result of the minimum performance condition measured over the required three-year period to 31st December 2007 not having been achieved, but awards granted in years 1999 to 2003 inclusive could still potentially vest depending on future retesting of performance.

"Super" options

In addition to "normal" options, the 2002 Plan also provides for the grant of "super" options to certain of the Group's most senior managers, including executive directors.

Remuneration report continued

Super options were granted in 2002 but have all since lapsed. No such options were granted in 2003 or any subsequent year under this scheme; nor is it expected that any will be granted in future years.

ii. The Performance Share Plan

The PSP was approved by shareholders at the Annual General Meeting on 27th April 2006. It was then adopted by the Board and awards made later on the same day. Awards were made entitling directors and certain other senior managers to acquire shares in the Company, with the awards normally vesting on the third anniversary of the grant (27th April 2009) subject to continued employment and the satisfaction of a TSR growth performance condition. No consideration was payable for the grant of the awards and no consideration is payable on vesting.

Following the rights issue of March 2007, the number of shares that were the object of the potential award made in 2006 was increased by a factor of 6.4274%, being the calculated bonus element of the rights issue.

The share price at the time of the 2006 award was 128.00 pence, equivalent to 120.27 pence having adjusted for the subsequent bonus effect of the rights issue.

A further award was made to directors and certain other senior managers on 26th March 2007, these awards also to vest normally on the third anniversary of the grant (26th March 2010) subject to the same provisions. The share price at the time of this award was 159.85 pence.

In 2008, further awards were made on two occasions. On 21st May 2008 an award was made to the remaining executive director, Martyn Ellis, and certain other senior managers, the share price at the time being 52.00 pence. On 26th September 2008 a further award was made to one other senior manager, the share price at the time being 35.15 pence. The 2008 awards will vest normally on the third anniversaries of the grants, being 21st May 2011 and 26th September 2011 respectively subject to the same provisions as described above. Again, no consideration was payable for the grants of the awards and no consideration is payable on vesting.

In normal circumstances annual awards will be limited to a potential value equivalent to a maximum of 100% of basic annual salary.

The performance condition required to be met is that the Company's TSR over the three-year period from the date of the award must be at least at the median of a ranking of the TSR of each of the members of a defined comparator group over the same period, in which case the award will vest as follows:

Nestor's TSR ranking in group	% of award that vests
Upper quartile or above	100%
Between upper quartile and median	Sliding scale from 35% to 100%
Median	35%
Below median	0%

The comparator group comprises the constituent companies of the FTSE Small Cap index, excluding investment trusts.

The Committee considered TSR to be a suitable performance measure for the PSP as it clearly aligns interests of shareholders and executives. It also considers that the FTSE Small Cap Index is an appropriate benchmark as there are no other companies with a directly comparable business profile to the Company listed on the UK Stock Exchange. TSR performance is independently calculated for the Committee. A chart showing the Company's TSR compared to the FTSE Small Cap Index over the last five financial years is shown below.

Awards made under the PSP in 2006 and subsequently to directors have been as follows:

	Maximum number of shares awarded in 2006 (adjusted)	Maximum number of shares awarded in 2007	Maximum number of shares awarded in 2008	Maximum number of shares awarded to date – Total	Amount charged against profit in 2008 £000
Stephen Booty	259,417	195,182	–	454,599	138
Martyn Ellis	168,787	126,994	292,788	588,569	113
Total	428,204	322,176	292,788	1,043,168	251

Stephen Booty left the Group's employment on 30th April 2008. Awards that had been made to him in 2006 and 2007 will still potentially vest, subject to the TSR condition, on the third anniversary of each grant (being 27th April 2009 and 26th March 2010 respectively), though subject to the Rules of the PSP which provide for time apportionment to be applied so that the award is reduced by a factor equivalent to the number of months out of the 36 month vesting period for which Mr Booty was not employed. For this purpose the date of cessation of employment is deemed to be 30th April 2009, allowing for a 12-month notice period beyond 30th April 2008; this again being consistent with the Rules of the Plan.

SAYE Scheme

The Group also operates a savings related share option scheme ("SAYE"), which provides a long-term savings opportunity for all of the Group's employees, as well as encouraging them to participate in the success of the Group. Participation is open to all permanent employees who are able to make regular monthly savings and are exercisable in normal circumstances after three or five years at a price which is fixed at a discount of 20% from the average of the mid-market prices for the five business days immediately preceding the date on which invitations are made by the Committee. In 2008 options over 790,288 shares were issued under this scheme, the exercise price being 41.40 pence.

Policy on the pensions of executive directors

Until it was closed to new entrants in April 2003, executive directors were able to join the Nestor Healthcare Group Retirement Benefits Scheme ("the Scheme"), a funded, HMRC approved, final salary occupational pension scheme. Pensions in the Scheme are based on final salary (excluding bonuses) and length of pensionable service. The Company has also established an unapproved scheme to provide additional death-in-service benefits to these directors in line with their basic salaries.

Under the Scheme, the normal retirement age of executive directors is 60 and the basic rate of accrual is 1/50th.

Since the Scheme was closed to new entrants in April 2003, newly appointed employees, including executive directors, are eligible to join the Nestor Healthcare Group Personal Pension Plan ("GPP"), which is a defined contribution arrangement. In respect of executive directors, the Company makes contributions to the GPP at a rate up to a maximum of 20% of the director's basic salary.

Executive directors' contracts of service

Policy

It is the Committee's policy only to offer contracts terminable on no more than 12 months' notice to executive directors. Martyn Ellis has a contract of employment terminable in all circumstances on a maximum of 12 months' notice, as did Stephen Booty. When offering contracts of employment to newly appointed executive directors, the Committee has regard to the broad principles outlined in the ABI and NAPF's joint statement on Best Practice on Executive Contracts and Severance, including the director's duty to mitigate his losses in the event of early termination of his contract.

Specific contractual details

Executive directors who served during 2008

	Date of contract	Notice period	"Pay in lieu of notice" clause	Termination provisions	
				Share options	Annual bonus
Stephen Booty	1st February 2003	12 months' notice from Company	Note 1	Note 2	Note 3
Martyn Ellis	23rd May 2003	12 months' notice from Company	Note 1	Note 2	Note 3

Remuneration report continued

Notes:

- 1 The Company may terminate the director's employment without notice, provided it pays to him an amount equating to his salary, benefits and employer's pension contributions or credits him with an additional period of pensionable service (as applicable) for the unexpired period of notice due under the contract. Martyn Ellis' contract also permits the Company to pay any monies due on a monthly basis and, at its discretion, to cease or reduce payments if he accepts suitable alternative employment.
- 2 At the Board's discretion, the director may be entitled to retain any vested share options held under the Group's Share Option Schemes for a period of up to 12 months from termination. He may also be entitled to exercise unvested share options early in certain specified circumstances subject to the Committee taking account of the performance of the Company and the length of time elapsed since the grant date.
- 3 Depending on the time of year at which his employment ceases, the director may be entitled to any bonus earned by him (but not yet paid) for the previous year under the Group's bonus scheme.

Chairman and non-executive directors

The Board sets the fee levels for the Chairman and non-executive directors. Non-executive directors do not hold contracts of employment but are offered letters of appointment for a fixed period of three years, renewable annually thereafter by agreement. Non-executive directors do not participate in any of the Group's annual or long-term incentive arrangements, nor is their remuneration pensionable.

The Chairman and current non-executive directors

	Date of letter of first appointment	Appointment term	Compensation in the event of early termination of office
Chairman			
John Rennocks	1st October 2003	1 year from 1st October 2008	3 months' fees
Non-executive directors			
Roger Dye	9th January 2004	1 year from 1st January 2009	None
Sir Andrew Foster	16th January 2004	1 year from 1st January 2009	None

The Chairman assumed the additional role of part-time Chief Executive following the departure from the Group of Stephen Booty on 30th April 2008, his letter of appointment being revised from that date to incorporate this additional responsibility.

Directors' emoluments

	Basic salary and fees 2008 £000	Performance related bonuses 2008 £000	Taxable benefits 2008 £000	Compensation for loss of office (including pensions) 2008 £000	Total emoluments 2008 £000	2007 £000
Ingrid Alexander	–	–	–	–	–	5
Stephen Booty	104	–	41	570	715	432
Roger Dye	35	–	–	–	35	35
Martyn Ellis	203	15	23	–	241	216
Sir Andrew Foster	35	–	–	–	35	35
John Rennocks	144	–	–	–	144	82
Total 2008	521	15	64	570	1,170	–
Total 2007	672	–	133	–	–	805

Notes:

- 1 Benefits receivable consist primarily of company car allowance, car fuel and healthcare insurance.
- 2 Included in taxable benefits relating to Stephen Booty is a payment of £35,000 (2007: £104,000) representing compensation in lieu of pension contribution. Included in taxable benefits relating to Martyn Ellis is a payment of £8,000 (2007: £nil) to compensate for a temporary assumption of greater responsibilities for a five-month period following the departure of Stephen Booty on 30th April 2008.
- 3 Ingrid Alexander resigned as a director on 2nd March 2007.
- 4 The figures above represent emoluments earned as directors during the relevant financial year. All were paid in the year that they were earned with the exception of the performance-related bonus payable to Martyn Ellis in respect of 2008, which is to be paid to him at the end of March 2009.
- 5 John Rennocks' fees were increased from £81,000 per annum to £175,000 per annum with effect from 1st May 2008 following his assumption of the role of Chief Executive. Mr Rennocks does not have any opportunity to earn a bonus.

Directors' pensions

Defined benefit scheme

	Accrued pension per annum at 31st December 2008 £000	Increase in accrued pension during 2008 £000	Increase in accrued pension per annum during 2008 excluding price inflation £000	Transfer value of accrued pension at 31st December 2008 £000	Transfer value of accrued pension at 31st December 2007 £000	Transfer value of the increase excluding price inflation less director's contributions £000	Increase in transfer value during 2008 less director's contributions £000
Stephen Booty	44	8	6	862	511	102	330

The transfer values have been calculated on the basis of actuarial advice in accordance with the Actuarial Guidance Note GN11. The above figures exclude any benefits derived from directors' additional voluntary contributions.

Defined contribution schemes

Employer contributions of £42,292 (2007: £40,600) were paid during the year to the GPP in respect of Martyn Ellis.

Directors' interests

The beneficial and family interests of directors in the share capital of the Company were:

	Ordinary shares (non-audited)		Share Option Plan 2002		Performance Share Plan 2006		SAYE Schemes	
	31.12.08	31.12.07	31.12.08	31.12.07	31.12.08	31.12.07	31.12.08	31.12.07
Roger Dye	—	—	—	—	—	—	—	—
Martyn Ellis	22,268	22,268	68,875	205,436	588,569	295,781	—	—
Sir Andrew Foster	—	—	—	—	—	—	—	—
John Rennocks	106,294	6,294	—	—	—	—	—	—

Notes:

- 1 None of the directors has any non-beneficial interest in the Company's share capital.
- 2 No director was materially interested in any contract of significance (apart from contracts of service or for services) with any Group company during or at the end of the financial year.
- 3 Included in Martyn Ellis' ordinary share holding at 31st December 2007 (though not 31st December 2008) was a total of 15,503 shares held under the LTIP.
- 4 Stephen Booty left the Group on 30th April 2008. At that time he held 94,731 ordinary shares (31st December 2007: 94,731) and 44,072 share options (31st December 2007: 373,294). He also held potential awards made under the Performance Share Plan of 454,599 shares (31st December 2007: 454,599).

Remuneration report continued

Details of share options held by the directors during the year were:

	Scheme (see below)	At 31st December 2007	Exercised	Lapsed	At 31st December 2008	Exercise price	Date from which exercisable	Expiry date
Stephen Booty	1	25,433	–	–	25,433	511.15p	Apr '05	Apr '12
	2	5,868	–	–	5,868	511.15p	Apr '05	Apr '12
	3	12,771	–	–	12,771	282.82p	Nov '06	Nov '13
	3	209,022	–	(209,022)	–	143.53p		
	4	120,200	–	(120,200)	–	199.67p		
Martyn Ellis	3	68,875	–	–	68,875	256.98p	Jun '06	Jun '13
	3	136,561	–	(136,561)	–	143.53p		

Schemes:

- 1 Employee Share Option Scheme 1996 Options; performance target – EPS growth of RPI plus 5% per annum
- 2 Company Share Option Plan 1996 Options; performance target – EPS growth of RPI plus 5% per annum
- 3 The 2002 Plan – “Normal Option”
- 4 The 2002 Plan – “Super Option”

Notes:

- 1 There is no cost to the employee for the receipt of options under the Employee Share Option Scheme 1996, Company Share Option Plan 1996 or the 2002 Plan. Deductions from earnings are made in respect of SAYE options.
- 2 Employee Share Option Scheme 1996, Company Share Option Plan 1996 and the 2002 Plan option prices are fixed at the mid-market price on the business day preceding the date of grant.
- 3 No directors held any SAYE options at any time in 2008.
- 4 The mid-market price at 31st December 2008 was 20.50 pence and the range during the year was 19.50 pence to 63.75 pence.

External appointments

All executive directors are required to seek the consent of the Board before accepting external appointments as non-executive directors of companies outside the Group.

John Rennocks is a non-executive director of five other companies outside the Group, all of which appointments have been consented to by the Board.

Martyn Ellis is not currently a director of any company outside the Group.

On behalf of the Board

Sir Andrew Foster

Chairman, Remuneration Committee

10th March 2009

Corporate governance

Introduction

A revised Combined Code on Corporate Governance ("the Code") was issued by the UK Financial Reporting Council ("the FRC") in June 2008 ("the 2008 Code"). This 2008 Code supersedes and replaces the code issued in June 2006 ("the 2006 Code"). The 2008 Code must be applied by companies listed on the London Stock Exchange in their accounting periods beginning on or after 29th June 2008. However, the Company has, as permitted, applied the 2008 Code in its accounting period beginning 1st January 2008.

The Company and Group have complied throughout the year with the provisions set out in the 2008 Code except where indicated in this statement.

The manner in which the Company applies the principles of good governance contained in the Code is described in the appropriate parts of this Annual Report. Thus the application by the Company of the Code's principles to remuneration matters at pages 26 to 32 should be read in conjunction with the statement below.

The Board

The Board of directors leads and controls the Company by holding at least eight meetings a year at which its current and forecast performance is examined. Regular reports on monthly performance and other matters of importance to the Company and Group ensure that the Board is supplied in a timely manner with the information necessary to make an informed judgement. In addition, the Board holds regular meetings to discuss and devise the Group's medium-term and long-term strategic focus and management development strategy. Regular informal presentations are given by senior business managers and occasionally by the Group's advisors in order to advise directors of issues of importance affecting the Group.

In accordance with the provisions of its Articles of Association and with the Code, each director is subject to re-election by the Company's shareholders at the Annual General Meeting immediately following appointment and at least every three years thereafter.

The Board has a Schedule of Matters specifically reserved to it for decision and has approved the written terms of reference for the various committees to which it has delegated its authority in certain matters. The Schedule makes it clear that all directors have access to the advice and services of the Company Secretary and establishes a procedure for all directors to take independent advice, if necessary, at the Company's expense. Matters reserved to the Board include the recommendation or approval of dividends, the approval of final and interim financial statements, major financial commitments, the acquisition of companies or businesses, appointments to the Board and its committees, the Group's future strategy and the Group's internal controls. This Schedule is kept under regular review.

During the year, the Board was led by John Rennocks, the Chairman. He also served as a member of the Board's Audit, Remuneration and Nomination Committees.

Until 30th April 2008, the Chairman acted solely as a non-executive Chairman. In this role his responsibilities are clearly defined in a written specification agreed by the Board prior to his appointment in 2003. They include the smooth running of the Board, effective communication between executive and non-executive directors and the general progress and long-term development of the Group. His other significant commitments were disclosed to the Board prior to his appointment.

At the end of April 2008, following Stephen Booty standing down as Chief Executive, the Board decided to appoint John Rennocks as Chief Executive, in a part-time capacity, whilst also retaining his existing responsibilities as Chairman. At that time the Board considered, and still considers, that this was in the best interests of the Company and the Group, notwithstanding the Board's recognition that it was not consistent with normally accepted best practice or with provision A.2.1 of the Combined Code.

The other two non-executive and independent directors, Sir Andrew Foster and Roger Dye, have separately commented on the position of the Chairman and Acting Chief Executive in their independent directors' statement at page 5.

Up to 30th April 2008 the day-to-day running of the business of the Company and Group was delegated to the executive directors then being Stephen Booty, Chief Executive and Martyn Ellis, Finance Director. Since April the day-to-day running of the business has been delegated to Mr Rennocks and to Mr Ellis.

During the year, independent non-executive directors with extensive business, finance, health and social care backgrounds provided the Board with a breadth of experience and with independent judgement. Roger Dye and Sir Andrew Foster served throughout the year, with Sir Andrew Foster being nominated as the senior independent non-executive director.

The Board considers that its present membership, comprising the Chairman also taking the role of Chief Executive, two independent non-executive directors and one executive director is for the time being appropriate, with a balance of skills and experience appropriate for the requirements of the business. This recognises that in John Rennocks, the Board has a Chairman who remains de facto "independent" (having met the criteria of independence referred to in Provision A 3.1. of the Code on his appointment in

Corporate governance continued

October 2003) whilst in the role solely of non-executive Chairman, but who may not be considered so whilst also assuming the role of Acting Chief Executive. The Board has agreed with Mr Rennocks that he will continue in this dual role until 30th June 2009. Before that date, the Board's Nomination Committee will decide when to initiate a recruitment process for the Chief Executive's appointment. Further details of the position are contained within the independent directors' statement at page 5.

The Board also considers that its policies and procedures are of sufficient strength to ensure that the performance and proceedings of the Company and Group are effectively challenged and controlled.

The Board actively encourages all directors to deepen their knowledge of their roles and responsibilities and to gain a clear understanding of the Group and the environment in which it operates. Newly appointed Board members undergo an induction programme and have received the opportunity to receive formal training. In 2008 the non-executive directors received the opportunity to meet with various members of the Group's management teams on several occasions. Further training for directors is available and offered as appropriate.

The Board has adopted a formal process for reviewing its own effectiveness and that of its individual members. In addition, regular meetings of the non-executive directors are held without the executive directors, and at least once a year, without the Chairman present, in order to evaluate his performance. This process has been in place throughout 2008. A formal review by the Board of its own effectiveness took place in 2008, combined with assessments of individual directors and assessments by the non-executive directors of the Chairman's performance.

Both Sir Andrew Foster and Roger Dye meet the criteria of independence as laid down in Provision A 3.1. of the Revised Code.

Committees

The Board operates three committees, consisting wholly of the non-executive directors (subject to the current dual role of the Chairman) to which it has delegated certain specific responsibilities and each of which has formally adopted terms of reference. These comprise the Nomination, Audit and Remuneration Committees.

Nomination Committee

The Nomination Committee, which makes recommendations to the Board on the appointment of directors, is chaired by John Rennocks. The Committee draws on the advice of such professional advisors as it considers necessary.

In 2008 the Committee comprised John Rennocks, Roger Dye and Sir Andrew Foster.

The terms of reference of the Nomination Committee are regularly reviewed by the Board.

No additions to the composition of the Board were made or contemplated during the year, so no meetings of the Nomination Committee were in practice required.

Audit Committee

The Audit Committee is chaired by Roger Dye, a chartered accountant and Chief Executive of the Davis Service Group Plc. It comprises the independent non-executive directors, Mr Dye and Sir Andrew Foster, together with the Chairman John Rennocks. Its terms of reference are regularly reviewed by the Board.

The Committee met three times during the year to review the preliminary full year results announcement and the Annual Report for the year ended 31st December 2007 and interim results for the six months ended 4th July 2008 before they were presented to the Board, to receive reports from the external auditors and to make recommendations to the Board on accounting policies. Its primary duties include the monitoring, on behalf of the Board, of compliance with, and the effectiveness of, the Group's accounting and internal control systems. The Committee's duties also include monitoring the scope and results of the Group's annual audit and the independence, general performance and objectivity of its auditors. Having previously agreed and implemented a procedure for reviewing and assessing its own effectiveness, the Committee carried out such a review in the year. From time to time the Chairman of the Committee also meets informally with the auditors.

The Audit Committee have approved the remuneration and terms of engagement of the Company's auditors, BDO Stoy Hayward LLP. Resolutions are to be put to the Annual General Meeting to seek shareholder approval for the appointment of BDO Stoy Hayward LLP until the next general meeting and to authorise the Audit Committee to determine their remuneration.

Remuneration Committee

The Remuneration Committee's responsibilities include determining the Group's overall remuneration strategy and the remuneration packages of the executive directors and other senior executives, after having consulted with the Chief Executive and having received professional advice from remuneration consultants and the Group's Human Resources senior management.

The Committee is also responsible for approving the grant and exercise of executive long-term incentive arrangements. In determining remuneration policy, the Committee is free to obtain such professional advice as it sees fit, and regularly monitors both the policies of comparator companies and current market practice, in order to ensure that the packages provided are sufficient to attract and retain executive directors of the necessary quality. Any professional advice will be obtained only from remuneration consultants or other specialist advisors who are wholly independent of the Group.

The remuneration of non-executive directors, including the Chairman, is a matter for the Company's Board and the Committee's terms of reference make it clear that the framework for the remuneration of the Group's senior executives (including executive directors) must be agreed by the Board as a whole.

The terms of reference of the Committee are regularly reviewed by the Board.

The Committee met three times in the year.

Sir Andrew Foster acted as Chairman of the Remuneration Committee throughout the year. In 2008 the other members of the Committee were Roger Dye and John Rennocks. The remuneration report prepared by the Remuneration Committee is set out in the Annual Report and discloses the remuneration policy of the Company and the remuneration of the directors.

Short biographies of each of the directors, including their membership of the Board's committees outlined above, may be found on page 19.

Attendance at meetings

During 2008 there were eight scheduled meetings of the Board, three ad-hoc meetings called to consider specific resolutions, two meetings of sub-committees of the Board, three meetings of the Audit Committee and three meetings of the Remuneration Committee. With the exception of one of the ad-hoc meetings of the Board, called at short notice, for which neither Sir Andrew Foster nor Roger Dye were available, all directors attended all meetings that they were entitled to attend.

Shareholder relations

The Board, on behalf of the Company and Group, recognises the need to maintain an active dialogue with its shareholders. The Chairman and Finance Director meet regularly with institutional investors and analysts to discuss the Group's performance and all shareholders have access to the senior non-executive director, who is available to discuss any questions which investors may have in relation to the running of the Group. The Board encourages shareholders to attend the Annual General Meeting and is always willing to answer questions, either in the meeting itself or, more informally, afterwards. In addition, shareholders may contact the Company direct, either through its website www.nestorplc.co.uk or by telephoning its offices on 01784 221600.

The Board also recognises the need to ensure that all directors are fully aware of the views of major shareholders about the Group. Copies of all analysts' research relating to the Group are circulated to all directors upon publication, monthly analyses of the shareholder register are made available to the Board and written feedback from shareholders and analysts, prepared by the Company's brokers and public relations advisors, is provided to all directors after every significant corporate event and at least twice a year.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the operating review on pages 7 to 15. The financial position of the Group, its cashflows, liquidity and borrowing facilities are described in the financial review on pages 16 to 18. In addition, note 23 to the financial statements describes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities and its exposures to credit and liquidity risk.

The directors consider that the Group's balance sheet has been significantly strengthened following the disposal of the Carewatch business in October 2008 and the consequential reduction in debt levels. The directors can in turn confirm that, after reviewing this updated financial position and cash flows of the Group and of the Company, they have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. This expectation takes into account the current and projected trading and cash flows of the Group in the light of the committed banking facilities available to it. These committed banking facilities expire in December 2009, and the overdraft facilities (which form part of the overall credit facilities) are also due for review in April 2009, both within 12 months of the date of approval of this Annual Report and financial statements contained therein, which gives rise to a level of uncertainty. The Board is confident that committed banking facilities can be renewed no later than December 2009 (including renewal of the overdraft facilities in April 2009), on terms which are overall acceptable to the Group. In forming this view the Board has discussed and will continue to discuss with its bankers the prospects for the renewal.

Corporate governance continued

For these reasons, the directors continue to adopt the going concern basis in preparing the accounts.

Internal controls

As required by the UK Listing Authority, the Company and the Group have complied throughout the year with the provisions of the Code relating to internal controls, having implemented the procedures necessary to comply with the guidance issued in September 1999 (the Turnbull Committee Report) and to report in line with that guidance.

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The directors first adopted a revised comprehensive process for managing, evaluating and reporting on significant risks faced by the Group in 1999. This process has been constantly reviewed and revised in subsequent years, including 2008. The revised (and further refined and extended) process has been in place for the whole of 2008 and up to the date of approval of the Annual Report and Accounts.

The key elements of the system operated by the Group to identify, evaluate and manage significant risks include the following:

- The Group's management operates a formal process for identifying, managing and reporting on operational, clinical and financial risks faced by each of the Group's businesses, whereby each of the risks identified is reviewed in detail by the executive directors on a semi-annual basis. Senior management team review meetings are held on at least a monthly basis at which the Group's business managers and executive team members report on the progress of the companies or discipline for which they are responsible and share best practice. The formal process for identifying discipline-specific risks across the Group's operations encompasses financial, IT, human resources, legal, property and clinical risks. A mechanism also exists to extend the Group's formal risk management processes to any significant new business acquired or begun by the Group immediately upon acquisition or start-up. In this way, the Board is able to confirm that the necessary process has been operated by the Group for the whole of 2008.
- The Audit Committee of the Board reviews a register compiled by the managing director of each of the Group's businesses and registers compiled by certain members of the Group's senior management team, summarising the significant risks faced by the businesses or the Group as a whole, the likelihood of those risks occurring and the steps being taken to minimise or otherwise manage those risks.
- In 2004, the Board took steps better to align its risk management processes with the operational imperatives of the businesses by adopting a dynamic risk-management process that assists the Group's operational management to identify developing trends at an early stage. This has been used throughout 2008.

As required by the Turnbull Guidance, the Board has carried out an annual assessment of the effectiveness of the system of internal controls. The processes applied by the Board include:

- At the end of the year, the managing directors of each of the Group's businesses, including the Group's corporate resource, are required to complete and sign a register of the key financial and operational risks facing the business for which they are responsible and to confirm that they have complied throughout the year with the Group's policies and procedures on risk management. From these registers, a report identifying the key risks faced by the Group is compiled and signed by the Chief Executive, Finance Director and Company Secretary, who are also required to confirm their compliance with such procedures and policies. This report and the annual compliance statements of each of the managing directors are reviewed by the Board before the Annual Report and Accounts are approved.
- At each meeting the Audit Committee reviews reports of the senior management team and external auditors, on any issues identified as having a potentially substantial impact on the results of the Group, or areas of control weakness.
- The Audit Committee reviews the effectiveness of the Group's system of managing financial risk and refers any risks it considers significant to the Board for its consideration.
- At least twice a year, the Audit Committee reviews the work plans and results of the external auditors.
- The Audit Committee Chairman reports the outcome of all Audit Committee meetings to the Board, which also receives minutes of all such meetings.

An internal audit function does not currently exist within the Group. The Audit Committee are satisfied that this is appropriate given the extent and rigour of the financial and operational controls in place but intend nonetheless to keep it under regular review.

The Group operates two comprehensive whistleblowing policies, in respect of clinical issues and general operational and financial matters.

Independent auditors' report to the shareholders of Nestor Healthcare Group plc

We have audited the Group and Company financial statements (the "financial statements") of Nestor Healthcare Group plc for the year ended 31st December 2008 which comprise the Group income statement, the Group and Company balance sheets, the Group and Company statements of recognised income and expense, the Group and Company cash flow statements and the related notes. These financial statements have been prepared under the accounting policies set out therein.

We have also audited the information in the directors' remuneration report that is described as having been audited.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, the directors' remuneration report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements and the part of the directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and whether, in addition, the Group financial statements have been properly prepared in accordance with Article 4 of the IAS Regulation. We also report to you whether, in our opinion, the information given in the directors' report is consistent with the financial statements. In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the 2008 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the directors' report, the unaudited part of the directors' remuneration report, the Chairman's statement, the operating and financial reviews, the corporate governance statement and the independent directors' statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the directors' remuneration report to be audited.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the Group's affairs as at 31st December 2008 and of its profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the Company financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the Company's affairs as at 31st December 2008;
- the Company financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

BDO Stoy Hayward LLP Chartered Accountants and Registered Auditors

Hatfield, 10th March 2009

BDO Stoy Hayward LLP

Group income statement

for the year ended 31st December 2008

	Notes	2008 £000	2007 £000
Revenue	3	163,289	179,623
Cost of sales		(104,727)	(116,681)
Gross profit		58,562	62,942
Administrative expenses		(53,270)	(49,794)
Operating profit	3	5,292	13,148
Other gains – disposal of operations	16	31,056	–
Finance income	5	238	213
Finance expense	5	(6,233)	(4,447)
Profit before taxation		30,353	8,914
Tax expense	6	(1)	(3,085)
Profit for the year attributable to equity shareholders of the Company		30,352	5,829
Earnings per share			
Basic	9	26.90p	5.39p
Diluted	9	26.90p	5.38p
Equity dividends	8	(1,128)	(3,382)
Dividends per share	8	1.00p	3.00p

Group and Company balance sheets

as at 31st December 2008

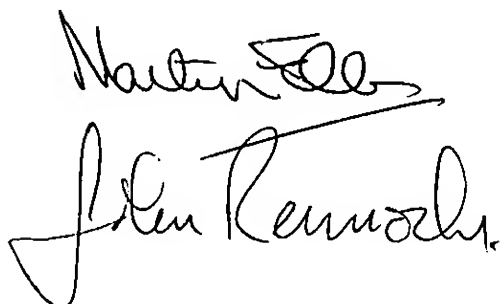
		Group		Company	
	Notes	2008 £'000	2007 £000	2008 £'000	2007 £000
Non-current assets					
Goodwill	10	92,798	97,191	-	-
Other intangible assets	11	111	485	-	-
Property, plant and equipment	12	2,449	3,558	-	-
Deferred tax assets	17	3,758	2,964	-	-
Investments	14	-	-	138,649	188,245
Non-current assets		99,116	104,198	138,649	188,245
Current assets					
Trade and other receivables	18	23,980	29,611	312	16,824
Current tax asset		2,204	71	-	-
Cash and cash equivalents	21	75	536	2,016	333
Current assets		26,259	30,218	2,328	17,157
Current liabilities					
Borrowings – overdrafts	21	(2,091)	(4,504)	-	-
Borrowings – loans	21	(17,000)	-	(17,000)	-
Derivative financial instruments	22	(2,552)	(421)	(2,552)	(421)
Trade and other payables	19	(14,694)	(19,501)	(27,720)	(913)
Employment benefit liabilities	24	(2,430)	(3,122)	-	-
Property provisions	24	(1,148)	(1,091)	-	-
Current liabilities		(39,915)	(28,639)	(47,272)	(1,334)
Net current (liabilities)/assets		(13,656)	1,579	(44,944)	15,823
Total assets less current liabilities		85,460	105,777	93,705	204,068
Non-current liabilities					
Borrowings – loans	21	-	(54,000)	-	(54,000)
Claims in respect of clinical incidents	24	(3,350)	-	-	-
Employment benefit liabilities	24	(6,291)	(3,250)	-	-
Property provisions	24	(3,055)	(1,279)	-	-
Non-current liabilities		(12,696)	(58,529)	-	(54,000)
Net assets		72,764	47,248	93,705	150,068
Equity					
Called up share capital	25	11,284	11,284	11,284	11,284
Share premium account	26	71,439	71,439	71,439	71,439
Share payment reserve	26	1,387	931	1,387	931
Other reserves	26	864	864	25,750	25,750
Retained (losses)/earnings	26	(12,210)	(37,270)	(16,155)	40,664
Equity shareholders' funds		72,764	47,248	93,705	150,068

The notes on pages 41 to 83 form an integral part of these financial statements.

The financial statements on pages 38 to 83 were approved by the Board on 10th March 2009 and were signed on its behalf by:

J L Rennocks

M A Ellis



Group statement of recognised income and expense

for the year ended 31st December 2008

	Notes	2008 £000	2007 £000
Profit for the year		30,352	5,829
Actuarial (losses)/gains arising in defined benefit pension schemes	32	(5,783)	3,267
Current tax credit		979	–
Deferred taxation credit/(charge) arising on actuarial (losses)/gains		640	(915)
Adjustment to deferred tax asset for change in rate of UK corporation tax		–	(181)
Net recognised income attributable to equity shareholders of the Company		26,188	8,000

Net recognised expense for the Company was the same as its loss in both 2008 and 2007 (see note 7).

Group and Company cash flow statements

for the year ended 31st December 2008

	Group		Company	
	2008 £'000	2007 £000	2008 £'000	2007 £000
Operating activities				
Cash generated from/(used in) operations (note 28)	10,920	8,010	43,428	(7,281)
Interest paid	(4,130)	(4,233)	(3,669)	(3,739)
Interest received	15	31	–	–
Income taxes paid	(1,247)	(2,277)	–	–
Net cash generated from/(used in) operating activities	5,558	1,531	39,759	(11,020)
Investing activities				
Purchase of property, plant and equipment (note 12)	(336)	(1,475)	–	–
Purchase of businesses and subsidiary undertakings (note 15)	(784)	(8,841)	–	–
Sale of subsidiary undertaking (note 16)	35,642	162	52	–
Net cash generated from/(used in) investing activities	34,522	(10,154)	52	–
Financing activities				
Issue of ordinary share capital (note 25)	–	30,735	–	30,735
Equity dividends paid to shareholders (note 8)	(1,128)	(3,382)	(1,128)	(3,382)
Decrease in loans from banks	(37,000)	(16,000)	(37,000)	(16,000)
Decrease in bank overdrafts	(2,413)	(2,286)	–	–
Net cash (used in)/generated from financing activities	(40,541)	9,067	(38,128)	11,353
Net (decrease)/increase in cash and cash equivalents	(461)	444	1,683	333
Cash and cash equivalents at the beginning of the year	536	92	333	–
Net (decrease)/increase in cash and cash equivalents	(461)	444	1,683	333
Cash and cash equivalents at the end of the year	75	536	2,016	333

Notes to the financial statements

for the year ended 31st December 2008

1 Basis of preparation

Both the Group and Company financial statements have been prepared by the directors in accordance with those International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) and Interpretations (SICs and IFRICs) which have been adopted by the European Commission and endorsed for use in the EU (collectively "Adopted IFRS"). On publishing the Company financial statements here together with the Group financial statements, the Company is taking advantage of the exemption in s230 of the Companies Act 1985 not to present its individual income statement and related notes.

These financial statements have been prepared under the historical cost convention, other than for the valuation of certain financial instruments. The financial statements have been prepared in pounds sterling which is the functional currency of the Group and the Company.

The principal accounting policies are set out below.

Going concern

The directors have a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the foreseeable future. This expectation takes into account the current and projected trading and cash flows of the Group in the light of the committed banking facilities available to it. These committed banking facilities expire in December 2009, and the overdraft facilities (which form part of the overall credit facilities) are also due for review in April 2009, that is within 12 months from the date of the Annual Report and financial statements contained therein, which gives rise to a level of uncertainty. The Board is confident that committed banking facilities can be renewed no later than December 2009 (including renewal of the overdraft facilities in April 2009), on terms which are overall acceptable to the Group.

In forming this view the Board has discussed and will continue to discuss with its bankers the prospects for the renewal. Subject to this qualification, the current facilities are considered to be adequate to meet all of the Group's cash flow requirements for the foreseeable future.

For these reasons, the directors continue to adopt the going concern basis in preparing the accounts.

Estimates and judgements

The preparation of accounts in accordance with Adopted IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the accounts and the reported amounts of revenues and expenses during the reported period. These estimates are based on historical experience and various other assumptions that management and directors believe are reasonable under the circumstances, the results of which form the basis for making judgements about the carrying value of assets and liabilities that are not readily apparent from other sources. Areas comprising critical judgements that may significantly affect the Group's earnings and financial position are bad debt provisioning, valuation of intangibles including goodwill, tax enquiries, provisions for pensions, income taxes, property related items, claims arising from clinical incidents and share-based payments, all of which are discussed in the respective notes.

Adoption of new and revised standards

In the current year, the Group has adopted Amendments to IAS 39 and IFRS 7 "Reclassification of Financial Instruments" and Amendments to IAS 39 and IFRS 7 "Reclassification of Financial Instruments – Effective Date and Transition". Three interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) are also effective for the current period. These are: IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions"; IFRIC 12 "Service Concession Arrangements" and IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction". The adoption of these interpretations has not led to any changes in the Group's accounting policies. At the year-end, the following standards and interpretations, which have not been applied in these financial statements, were in issue but not yet effective:

IFRS 8 Operating Segments

IFRS 1 (Revised) First Time Adoption of International Financial Reporting Standards

IFRS 1 and IAS 27 (Amendments) Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate

IFRS 2 (Amendment) Vesting Conditions and Cancellations

IFRS 3 (Revised) Business Combinations

IAS 1 (Amendments) Presentation of Financial Statements: A Revised Presentation

IAS 23 (Revised) Borrowing Costs

Amendments to IAS 27 Consolidated and Separate Financial Statements

IAS 32 and IAS 1 (Amendments) Puttable Financial Instruments and Obligations arising on Liquidation

Notes to the financial statements continued

for the year ended 31st December 2008

1 Basis of preparation continued

IAS 39 (Amendment) Financial Instruments: Recognition and Measurement: Eligible Hedged Items

IAS 39 and IFRS 7 (Amendments) Reclassification of Financial Instruments

IFRIC 13 Customer Loyalty Programmes

IFRIC 15 Agreements for the Construction of Real Estate

IFRIC 16 Hedges of a Net Investment in a Foreign Operation

IFRIC 17 Distribution of Non-cash Assets to Owners

The directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the Group except for any additional segment disclosures when IFRS 8 comes into effect for periods commencing on or after 1st January 2009.

2 Accounting policies

Basis of consolidation

The accounting reference date of the Group, comprising the Company and all its trading subsidiary undertakings, is 31st December. These financial statements are accordingly presented for the year to 31st December 2008.

Subsidiaries are those companies controlled directly or indirectly by Nestor Healthcare Group plc. Control exists where the Company has the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

The results of businesses acquired are included from the effective date of acquisition and businesses sold are included up to the effective date of disposal. The effective date of acquisition or disposal is considered to be the date when control passes.

Acquisitions have been accounted for using the purchase method of accounting. The cost of acquisition so accounted for includes directly related capitalised costs.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies into line with those used by the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date.

Revenue

Revenue is measured at the fair value of the consideration received and receivable and represents amounts receivable for services provided in the normal course of business, net of discounts, VAT and other sales related taxes. Revenue is recognised when services are supplied to external customers against orders received. In the Social Care business segment, the point of supply is generally defined as the point at which a service user has received care services from the Group, which are usually provided on a daily basis. In the Primary Care business segment, revenue is recognised either on the delivery of specific services or, for capacity-related contracts, on a time-elapsed basis as the principal contractual obligation is to provide an agreed level of capacity over a fixed term. There is generally no obligation under these contracts to carry forward non-utilised capacity.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the asset's net carrying amount. Dividend income from investments is recognised when shareholders' rights to receive payment have been established.

Borrowing costs

Borrowing costs are recognised in the income statement in the period in which they are incurred.

Foreign currency

Assets and liabilities denominated in foreign currencies are translated into sterling at the period end exchange rates.

Leases

Payments under operating lease arrangements are charged to the income statement on a straight line basis.

Corporation tax

The amount included in the income statement is based on pre-tax reported profit or loss and is calculated taking into account temporary differences and the likelihood of realisation of deferred tax assets and liabilities. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arise from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax is provided using rates of tax that have been enacted or substantively enacted by the balance sheet date.

Deferred tax assets and liabilities are not discounted.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and when the Group intends to settle its current tax assets and liabilities on a net basis.

Goodwill

Where the cost of acquisition exceeds the fair values attributable to the net assets acquired, the resulting goodwill is capitalised. Goodwill is tested for impairment annually and also when indicators suggest that the carrying value may not be recoverable. Goodwill is carried at cost less amortisation charged prior to the Group's transition to IFRS on 1st January 2004, less accumulated impairment losses. Any impairment is recognised in the period in which it is identified.

Group goodwill derives from the acquisition of businesses and subsidiary undertakings in 2007 and prior years. The directors have specifically evaluated the carrying values of goodwill for each such acquisition. The recoverable amount of goodwill in each cash-generating unit is determined based on value-in-use calculations. These calculations require the use of estimates for cash flow projections based on financial budgets approved by management, extrapolated using estimated growth rates which do not exceed the long-term average growth rate for the businesses in which the unit operates. Key assumptions used for value-in-use calculations are: budgeted operating profit, depreciation and capital expenditure; working capital requirements growing in line with the nominal annual growth rates assumed beyond the budgeted period; and using a pre-tax discount rate.

Prior to the adoption of IFRS, goodwill was amortised over a period not exceeding 20 years. Following the adoption of IFRS, goodwill is not amortised. Prior to 1st January 1998, purchased goodwill was written off to reserves on acquisition. Under IFRS 1, such goodwill is not recognised on transition to IFRS nor is the goodwill transferred to the income statement on disposal of the investment, or if the investment becomes impaired.

Other intangible assets

Other intangible assets represent the capitalised value of customer contracts. Such contracts are capitalised at fair value and amortised over a period equal to the remaining life of each contract. The carrying value is reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable. Such impairments and amortisation are charged to administrative expenses.

Notes to the financial statements continued

for the year ended 31st December 2008

2 Accounting policies continued

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and impairment. Depreciation is calculated so as to write down the cost of these assets to their estimated residual value in equal instalments over their estimated useful lives. The ranges of estimated useful lives for each major asset category, which are reviewed annually, are:

Plant and equipment, fixtures and fittings (including computer equipment)	3 to 8 years
--	--------------

The carrying value is reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

Investments

Investments in subsidiary undertakings are held at original cost less any provision for impairment.

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Employee benefits

The costs of providing pensions under defined benefit schemes are calculated using the projected unit credit method and spread over the period during which benefit is expected to be derived from the employee's services, in accordance with the advice of qualified actuaries. Pension obligations are measured at the present value of estimated future cash flows discounted at rates reflecting the yields of high quality corporate bonds. Pension scheme assets are measured at fair value at the balance sheet date. Actuarial gains and losses, differences between the expected and actual returns, and the effects of changes in actuarial assumptions are recognised in the statement of recognised income and expense in the year they arise.

The Group's contributions to defined contribution schemes are charged to the income statement as incurred.

Provisions and contingent liabilities

Provisions are recognised when the Group has a legal or constructive obligation as a result of a past event, where the amount of the obligation can be reliably estimated and it is probable that the Group will be required to settle the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance expense.

Where the Group has a possible obligation as a result of a past event that may, but probably will not result in an outflow of economic benefits, no provision is made. Disclosures are made of the contingent liability including where practicable an estimate of the financial effect, uncertainties relating to the amount or timing of the outflow of resources, and the possibility of any reimbursement.

Cash and cash equivalents

Cash and cash equivalents comprise balances at banks that are not capable of being offset against overdrafts or other bank borrowings under group overdraft arrangements, together with balances of cash in hand.

Share-based payments

IFRS 2 has been applied to all grants of equity instruments after 7th November 2002 in accordance with the provisions of the standard. The Group issues equity-settled share-based payments to certain employees under the terms of various employee share and share option schemes, including long-term incentive plans and Save As You Earn share option schemes. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value so determined at the grant date is expensed on a straight line basis over the vesting period, based on an estimate of the shares that will ultimately vest, and adjusted for the effect of non-market based vesting conditions. Fair value has been measured using a stochastic simulation modelling valuation method.

The fair values of awards granted prior to 7th November 2002 have not been charged to income.

The liability to the Company in respect of these shares is accounted for as a capital contribution made to subsidiary companies by the Company, and as such is recognised as an increase in investments in the balance sheet of the Company.

Financial instruments

The Group has adopted IFRS 7 "Financial Instruments: Disclosure". In the opinion of the directors the accounting policies set out below are consistent with the requirements of this standard.

Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Financial assets are classified as either financial assets "at fair value through profit or loss" (FVTPL) or "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets are classified as FVTPL where the financial asset is held for trading or is designated as FVTPL. A financial asset is classified as held for trading if it has been acquired principally for the purpose of selling in the near future or it is a derivative that is not designated and effective as a hedging instrument. Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in finance income or expense in the income statement. The net gain or loss recognised in the income statement incorporates any interest earned on the financial asset.

Trade receivables and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Financial assets, other than FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been impacted.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recorded in the income statement within administration expenses. If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the income statement to the extent that the carrying amount at the date of impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

The Group has not classified any of its financial assets as held to maturity or available for sale.

Financial liabilities are classified according to the substance of the contractual arrangements entered into. Financial liabilities are classified as either financial liabilities "at FVTPL" or "other financial liabilities".

Financial liabilities are classified as FVTPL where the financial liability is held for trading. A financial liability is classified as held for trading if it has been incurred principally for the purpose of disposal in the near future or it is a derivative that is not designated and effective as a hedging instrument. Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in finance income or expense in the income statement. The net gain or loss recognised in the income statement incorporates any interest paid on the financial liability.

Notes to the financial statements continued

for the year ended 31st December 2008

2 Accounting policies continued

The Group has entered into interest rate derivative contracts to hedge its exposure to changes in interest rates (note 22). These derivative financial instruments are initially recognised at fair value at the date each contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in finance income or expense in the income statement immediately. The fair value of these interest rate derivatives is obtained using quotations supplied by the counterparty banks.

Other than the interest rate derivatives noted above, the Group has not designated any other financial asset or liability as being FVTPL.

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or, where appropriate, a shorter period.

Unless otherwise indicated, the carrying amounts of both financial assets and financial liabilities held by the Group are reasonable approximations of their respective fair values (note 23).

Financial instruments issued by the Group are treated as equity only to the extent that they do not meet the definition of a financial liability. The Company's ordinary shares in issue are classified as equity instruments. For the purposes of the disclosures given in note 23, the Group considers its capital to consist of ordinary share capital, share premium reserve, share payment reserve, other reserves and retained earnings.

3 Segmental reporting

During the year operations were conducted and managed through two segments, Social Care and Primary Care, with results reported on this basis.

Costs have been allocated on a specific basis where possible, and certain central costs allocated on a reasonable and consistent basis.

The UK was the origin and destination of all of the Group's revenue in both 2008 and 2007. All revenue is derived from external customers. All of the Group's operating profits were earned in the UK, and all of the Group's operating assets and the net assets were located in the UK.

	2008 £000	2007 £000
Revenue by business segment		
Social Care	113,985	124,204
Primary Care	49,304	55,419
Total revenue	163,289	179,623
	2008 £000	2007 £000
Operating profit by business segment		
Social Care	11,346	10,054
Primary Care	1,437	3,094
Total segmental operating profit	12,783	13,148

	2008 £000	2007 £000
Profit for the year		
Operating profit by business segment:		
Social Care	11,346	10,054
Primary Care	1,437	3,094
Operating profit by business segment	12,783	13,148
Unallocated corporate expenses	(7,491)	–
Operating profit	5,292	13,148
Other gains – disposal of operations	31,056	–
Finance income	238	213
Finance expense	(6,233)	(4,447)
Profit before taxation	30,353	8,914
Tax expense	(1)	(3,085)
Profit for the year	30,352	5,829

Unallocated corporate expenses include an amount of £2,607,000 in relation to onerous lease obligations on properties no longer occupied by the Group. As these properties are no longer used in the trade of either the Social Care or Primary Care businesses, it is not considered appropriate to allocate these costs to either operating segment in the current year.

During the year a provision of £3,458,000 was set up in relation to claims in respect of two clinical incidents. This is discussed more fully in note 24. These claims, whilst they do arise out of the Primary Care business, relate to incidents that took place in 2001 and 2004. Due to the age of these claims, it is not considered appropriate to allocate this cost to the Primary Care segment operating profit in the current year.

The balance of the unallocated corporate expense relates to the termination costs of the outgoing Chief Executive, Stephen Booty, and a number of other individuals, totalling £1,426,000. These termination costs were incurred as part of an internal restructuring exercise and have not been allocated to either the Social Care or Primary Care operating segments.

Finance expense includes £2,131,000 (2007: £19,000) in relation to the fair value loss on derivative financial instruments in the year.

A consistent approach has been adopted in the analysis of segment assets and liabilities which follows.

	Segment assets 2008 £000	Segment liabilities 2008 £000	Net operating assets/(liabilities) 2008 £000
Analysis of operating assets and liabilities by business segment – 2008			
Social Care	64,578	(8,508)	56,070
Primary Care	52,946	(5,381)	47,565
Central	7,776	(19,631)	(11,855)
Total operating assets/(liabilities), including goodwill, at 31st December 2008	125,300	(33,520)	91,780
			2008 £000
Net assets per Group balance sheet			72,764
Net debt (note 21)			19,016
Total net operating assets, including goodwill, at 31st December 2008			91,780

Notes to the financial statements continued
for the year ended 31st December 2008

3 Segmental reporting continued

	Segment assets 2007 £000	Segment liabilities 2007 £000	Net operating assets/(liabilities) 2007 £000
Analysis of operating assets and liabilities by business segment – 2007			
Social Care	73,304	(12,281)	61,023
Primary Care	54,530	(5,341)	49,189
Central	6,046	(11,042)	(4,996)
Total operating assets/(liabilities), including goodwill, at 31st December 2007	133,880	(28,664)	105,216

	2007 £000
Net assets per Group balance sheet	47,248
Net debt (note 21)	57,968
Total net operating assets, including goodwill, at 31st December 2007	105,216

	Capital expenditure 2008 £000	Acquisitions 2008 £000	Depreciation 2008 £000	Amortisation of intangibles 2008 £000
Analysis of other segment items – 2008				
Social Care	146	784	302	374
Primary Care	130	–	695	–
Central	60	–	414	–
Total	336	784	1,411	374

	Capital expenditure 2007 £000	Acquisitions 2007 £000	Depreciation 2007 £000	Amortisation of intangibles 2007 £000
Analysis of other segment items – 2007				
Social Care	321	8,841	412	493
Primary Care	860	–	737	–
Central	294	–	424	–
Total	1,475	8,841	1,573	493

4 Operating profit

	Group		Company	
	2008 £000	2007 £000	2008 £000	2007 £000
Operating profit is stated after charging/(crediting):				
Employee costs including share-based payments charge	108,825	120,880	–	–
Amortisation of intangible assets	374	493	–	–
Depreciation of property, plant and equipment	1,411	1,573	–	–
(Gain)/loss on sale of property, plant and equipment	(1)	4	–	–
Gain on sale of business	(31,056)	(156)	–	–
Operating lease rentals:				
Land and buildings	2,863	2,901	–	–
Plant and machinery	1,325	1,037	–	–

Remuneration of the Company's auditors in respect of audit and all other services was as shown below:

	2008 £000	2007 £000
Fees payable for the audit of the annual accounts of the Group and Company	165	135
Fees payable for other services:		
The audit of the Company's subsidiaries, pursuant to legislation	18	15
Other services supplied pursuant to legislation	108	–
Fees payable for other services	126	15
Total fees payable to the Company's auditors	291	150

Auditors' remuneration relating to the statutory audit of the Company of £8,000 (2007: £7,000) was borne by another Group company. Fees payable to the auditors for non-audit services to the Company are not disclosed, due to the fees being disclosed above on a consolidated basis.

5 Finance income and expense

	2008 £000	2007 £000
Finance income		
Bank interest receivable	15	31
Net finance credit on defined benefit pension schemes (note 32)	223	182
Total finance income	238	213
	2008 £000	2007 £000
Finance expense		
Unwinding of discount in property provisions	(160)	(126)
Interest payable on bank loans and overdrafts	(3,942)	(4,302)
Fair value loss relating to interest rate derivative contracts	(2,131)	(19)
Total finance expense	(6,233)	(4,447)

6 Taxation

	2008 £000	2007 £000
UK corporation tax charge on taxable profit for the year	(979)	(1,779)
Over provision in previous years – current tax	886	335
Current tax charge	(93)	(1,444)
Deferred tax credit/(charge) for the year	340	(1,131)
Change in tax rate	–	(200)
Under provision in previous years – deferred tax	(248)	(310)
Deferred tax credit/(charge)	92	(1,641)
Tax expense for the year	(1)	(3,085)

Notes to the financial statements continued
for the year ended 31st December 2008

6 Taxation continued

The effective tax rate for the year is lower/(higher) than the average standard rate (28.5% (2007: 30%)) of corporation tax for the UK. The differences are explained below:

	2008 £000	2007 £000
Profit at the average standard rate of corporation tax at 28.5% (2007: 30%)	(8,649)	(2,674)
Effect of change in tax rate	–	(137)
Gains not chargeable	8,634	–
Items not deductible	–	(59)
Deferred tax derecognised	(624)	(240)
Over provision in previous years – current tax	886	335
Under provision in previous years – deferred tax	(248)	(310)
Tax expense for the year	(1)	(3,085)

Gains not chargeable to corporation tax include the gain on disposal of the Carewatch business. This gain is subject to capital gains tax, and is not expected to result in any material liability due to the availability of £34,000,000 offsetting capital losses. Following this offset further capital losses of at least £5,000,000 remain available. A deferred tax asset has not been recognised in respect of these losses.

7 Loss for the year

The loss after tax for the year dealt with in the accounts of the Company amounts to £55,691,000 (2007: loss of £3,258,000). This loss is after an impairment charge of £50,000,000 in respect of investments in subsidiary companies.

As allowed by the provisions of Section 230 of the Companies Act 1985, the Company has not published its own income statement.

On 27th February 2009, subsequent to the year end, the Company received a dividend of £60,000,000 from its subsidiary company, Helenus Limited.

8 Dividends

	2008 £000	2007 £000
Equity dividends paid		
Ordinary shares: final dividend for the previous year: 1.00p per 10p share (2007 – 2.00p)	1,128	2,254
Ordinary shares: interim dividend for the current year: nil per 10p share (2007 – 1.00p)	–	1,128
Total dividends paid on equity shares: 1.00p per 10p share (2007 – 3.00p per 10p share)	1,128	3,382

In addition, the directors propose a final dividend for the year ending 31st December 2008 of 1.50p per 10p share (cost £1,692,000) and a resolution to this effect will be tabled at the Annual General Meeting.

It is proposed that the dividend will be paid on 5th June 2009 to shareholders who are on the register of members on 8th May 2009.

9 Earnings per share

Basic earnings per 10p share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all potentially dilutive ordinary shares. The Group has only one category of potentially dilutive ordinary shares: those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year. In the year to 31st December 2008 no options qualified under this test. Diluted earnings per share is therefore the same as basic earnings per share for this period.

	2008 Earnings £000	2008 Weighted average number of 10p shares thousand	2008 Earnings per share pence	2007 Earnings £000	2007 Weighted average number of 10p shares thousand	2007 Earnings per share pence
Earnings per share	30,352	112,844	26.90p	5,829	108,243	5.39p
Dilutive effect of options	–	–	–	–	44	(0.01p)
Diluted earnings per share	30,352	112,844	26.90p	5,829	108,287	5.38p

None of the share options outstanding at the end of the year were potentially dilutive in the year to 31st December 2008 (2007: 1,808,089).

10 Intangible assets – goodwill

	2008 £000
Cost	
At 1st January 2008	165,686
Subsequent reductions relating to acquisitions made in prior years	(1,487)
Disposals	(3,306)
At 31st December 2008	160,893
Aggregate amortisation	
At 1st January 2008	68,495
Disposals	(400)
At 31st December 2008	68,095
Net book value	
At 31st December 2008	92,798
	2007 £000
Cost	
At 1st January 2007	152,864
Additions	13,029
Reductions	(203)
Disposals	(4)
At 31st December 2007	165,686
Aggregate amortisation	
At 1st January 2007 and 31st December 2007	68,495
Net book value	
At 31st December 2007	97,191

10 Intangible assets – goodwill continued

Group goodwill derives from the acquisition of businesses and subsidiary undertakings in 2007 and prior years. The directors consider that goodwill represents value to the Group for which the recognition of a discrete intangible asset is neither permitted nor appropriate. Such value primarily comprises future and potential future economic benefits including additional revenues and operating synergies that it is anticipated may be derived from the business, together with the fair value of the workforce in place at the date of acquisition.

The carrying amounts of goodwill by business segment are as follows:

	2008 £000	2007 £000
Goodwill by business segment		
Social Care	46,896	52,039
Primary Care	45,902	45,152
Total	92,798	97,191

Goodwill is allocated to cash-generating units (CGUs) as follows:

	2008 £000	2007 £000
Goodwill by CGU		
Goldsborough/Medico	42,256	47,399
Country Cousins	3,362	3,362
Patricia White's	1,278	1,278
Social Care	46,896	52,039
Primary Care	45,902	45,152
Total	92,798	97,191

The directors have specifically evaluated the carrying values of goodwill. The recoverable amount of goodwill in each cash-generating unit is determined based on value-in-use calculations. These calculations require the use of estimates for cash flow projections based on three-year financial forecasts approved by management, extrapolated to 10 years using estimated growth rates which do not exceed the long-term average growth rate for the businesses in which the unit operates, before applying a terminal value based on a small multiple of year 10 cashflows to these annual cash flows. Key assumptions used for value-in-use calculations are budgeted operating profit, depreciation and capital expenditure, together with working capital (generally debtors less creditors) requirements growing in line with nominal assumed growth rates beyond the budgeted period, and a pre-tax discount rate based on the Group's weighted average cost of capital. Management have concluded that it is appropriate to apply the same weighted average cost of capital across all CGUs. Operating profits have been based on past experience and future expectations in the light of anticipated market and economic conditions.

The assumptions applicable to each CGU are detailed below.

	2008 Pre-tax discount rate %	2008 Growth rate %	2007 Pre-tax discount rate %	2007 Growth rate %
Goldsborough/Medico	8.80%	3.50%	13.50%	2.50%
Country Cousins	8.80%	3.50%	13.50%	2.50%
Patricia White's	8.80%	3.50%	13.50%	2.50%
Primary Care	8.80%	4.50%	13.50%	2.50%

The major factor behind the reduction in the pre-tax discount rate from the prior year is the reduction in market interest rates.

Having evaluated the carrying values of goodwill in this way, the directors have concluded that no impairment of goodwill is needed in the year for any cash-generating unit within the Social Care or Primary Care business segments.

The recoverable amount for the Primary Care CGU within the Primary Care segment exceeds its carrying value by £5,600,000 (2007: £34,000,000), following a review and reassessment of the above methodology, in particular in relation to the treatment of terminal values.

In respect of the cash flow projections, a decrease of 1% in the assumed annual growth rate would cause the value-in-use to exceed the carrying value of goodwill by £4,300,000; whilst a decrease of 2% would cause the value-in-use to exceed the carrying value of goodwill by £2,200,000. Further, an increase in the discount rate applied of 1% would cause the value-in-use to exceed the carrying value of goodwill by £2,600,000; with a increase of 2% causing the carrying value to exceed its value-in-use by £200,000.

If, in respect of the Primary Care CGU, the assumed growth rate fell by 3.4% to 1.1% or the discount rate rose by 1.9% to 10.7%, the carrying value of goodwill and the value-in-use would be the same.

In respect of the Social Care CGUs, the directors have concluded that there are no reasonably possible changes in key assumptions which would cause the carrying value of goodwill to exceed its value-in-use.

11 Other intangible assets

	2008 £000
Cost	
At 1st January 2008 and 31st December 2008	1,925
Aggregate amortisation	
At 1st January 2008	1,440
Charge for the year	374
At 31st December 2008	1,814
Net book value	
At 31st December 2008	111
	2007 £000
Cost	
At 1st January 2007	1,355
Additions	570
At 31st December 2007	1,925
Aggregate amortisation	
At 1st January 2007	947
Charge for the year	493
At 31st December 2007	1,440
Net book value	
At 31st December 2007	485

Other intangible assets represent the capitalised value of customer contracts acquired via business combinations (acquisitions of businesses and subsidiary undertakings) made since 1st January 2004. Such contracts are capitalised at fair value and amortised over a period equal to the remaining life of each contract. Contract lives so amortised varied between one year and five years. All were within the Social Care business segment at both 31st December 2008 and 31st December 2007.

Notes to the financial statements continued

for the year ended 31st December 2008

11 Other intangible assets continued

All of the other intangible assets were owned by subsidiary undertakings of the Company at both 31st December 2008 and 31st December 2007.

The Group carries out reviews of its intangible assets on an annual basis to determine whether events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. If any such indication exists, the recoverable amount of the asset is estimated as either the higher of the net selling price or value-in-use; the resultant loss (the difference between the carrying amount and the recoverable amount) is recorded as a charge to the consolidated income statement. The value-in-use is calculated as the present value of the estimated future cash flows expected to result from the use of assets in the business being evaluated. In order to determine the present value of estimated future cash flows, the Group uses a discount rate of 8.8% (2007: 13.5%) based on its estimated weighted cost of capital, together with any risk premium as appropriate. Estimated future cash flows used in the impairment calculations represent management's best view of likely market conditions including selling prices, volumes and employment costs. Actual cash flows may differ significantly from these estimates due to the effect of changes in market conditions or to subsequent decisions on the activities of the business. These differences may have a material impact on the asset values, impairments and amortisation expense reported in future periods.

12 Property, plant and equipment

	2008 £000
Cost	
At 1st January 2008	14,076
Additions	336
Disposals	(380)
At 31st December 2008	14,032
Depreciation	
At 1st January 2008	10,518
Charge for the year	1,411
Eliminated on disposals	(346)
At 31st December 2008	11,583
Net book value	
At 31st December 2008	2,449
	2007 £000
Cost	
At 1st January 2007	12,693
Additions	1,475
Acquired by acquisition	15
Eliminated on disposal of subsidiary	(10)
Disposals	(97)
At 31st December 2007	14,076
Depreciation	
At 1st January 2007	9,046
Charge for the year	1,573
Eliminated on disposal of subsidiary	(8)
Eliminated on disposals	(93)
At 31st December 2007	10,518
Net book value	
At 31st December 2007	3,558

13 Commitments

	2008 £000	2007 £000
Capital expenditure that has been contracted but not provided for	-	-

The Company has made commitments to the Pensions Regulator to make cash payments into both defined benefit pension schemes. Cash payments of £1,280,000 will be paid each year up to and including 2012 into the Nestor Healthcare Group Retirement Benefits Scheme, whilst cash payments of £1,150,000 will be paid each year up to and including 2013 into the Healthcall Group Limited Pension Scheme. Both commitments were made following finalisation of the most recent actuarial valuations, these being as at 5th April 2006 in respect of the Nestor Healthcare Group Retirement Benefits Scheme and as at 1st November 2006 in respect of the Healthcall Group Limited Pension Scheme. These commitments, when made, were intended to ensure that the funding deficits on both schemes would be eliminated by no later than 2013.

14 Investments

	Investment in subsidiaries 2008 £000
Company	
At 1st January 2008	188,245
Disposals	(52)
Impairment	(50,000)
Capital contributions for share-based payments	456
At 31st December 2008	138,649

At the beginning of the year, investments in subsidiary companies amounted to £188,245,000, inclusive of capital contributions of £90,000,000 made in the course of group restructuring in previous years. In the year an impairment charge of £50,000,000 has been accounted for by the Company in relation to the value of the investment in its subsidiary companies. This charge has been included within administrative expenses in the accounts of the Company.

The directors have specifically evaluated the carrying values of the investments. The recoverable amount of investments is determined based on value-in-use calculations. These calculations require the use of estimates for cash flow projections based on three-year financial forecasts approved by management, extrapolated to 10 years using estimated growth rates which do not exceed the long-term average growth rate for the businesses in which the unit operates, before applying a terminal value based on a small multiple of year 10 cashflows to these annual cash flows. Key assumptions used for value-in-use calculations are budgeted operating profit, depreciation and capital expenditure, together with working capital (generally debtors less creditors) requirements growing in line with nominal assumed growth rates beyond the budgeted period, and a pre-tax discount rate based on the Group's weighted average cost of capital. Management have concluded that it is appropriate to apply the same weighted average cost of capital across all CGUs. Operating profits have been based on past experience and future expectations in the light of anticipated market and economic conditions. The assumptions used to evaluate the value-in-use of investments are a pre-tax discount rate of 8.8% (2007: 13.5%) and an assumed weighted average growth rate of 3.7% (2007: 2.5%). This methodology has been reviewed and reassessed during the year in particular in relation to the treatment of terminal values.

Having evaluated the carrying values of the investments in this way, the directors have concluded that an impairment charge of £50,000,000 is required in respect of the carrying value of its investments.

	Investment in subsidiaries 2007 £000
Company	
At 1st January 2007	188,267
Disposals	(2)
Capital contributions for share-based payments	(20)
At 31st December 2007	188,245

Notes to the financial statements continued

for the year ended 31st December 2008

14 Investments continued

Except where stated, the following subsidiary companies are wholly-owned including 100% voting rights, operate in the UK and are registered in England and Wales. All companies have been included in the consolidated results of the Group.

Principal undertakings

Undertaking	Business
Nestor Primecare Services Limited ¹	UK healthcare services in primary and social care
Nestor Equipment Leasing Limited ¹	Provision of asset leasing
Helenus Limited	Intermediate holding company

¹ The interest of Nestor Healthcare Group plc is held through intermediate holding companies.

The directors consider that to give full particulars of all subsidiary undertakings would lead to a statement of excessive length. A full list of subsidiary undertakings is available at the Company's registered office.

Related party transactions

Group

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. The Group had no material transactions with other related parties during the year.

Details of any transactions with directors are set out in the remuneration report. Compensation of directors and key management is disclosed in note 31. During the year there were no other material transactions or balances between the Group and its key management personnel or members of their close family.

Company

The Company receives dividends from, and recharges certain costs to, subsidiary undertakings in the normal course of business. Dividend income received in the year amounted to £nil (2007: £nil). Amounts recharged to subsidiaries amounted to £134,000 (2007: £155,000). Amounts outstanding at 31st December 2008 and 31st December 2007 between the Company and subsidiary undertakings are disclosed in notes 18 and 19.

15 Purchase of businesses and subsidiaries

No purchases of companies or businesses were made in 2008.

Six companies and one unincorporated business were acquired in the year to 31st December 2007. All were in the Social Care business segment.

The fair values of assets and liabilities acquired in 2007, and adjustments thereof relating to the 2003 and 2005 acquisitions, and the goodwill arising are outlined in the table below. All values of assets, liabilities and goodwill arising on the 2007 acquisitions have been finalised in the 2008 financial statements, now that detailed reviews of businesses acquired have been completed. In the year, £784,000 of deferred consideration was paid. On review of performance against earn-out conditions, £2,241,000 of deferred consideration has been written back in relation to three acquired businesses.

Intangible assets acquired represent the capitalised value of customer contracts. These have been capitalised at fair value and amortised over the remaining life of each contract. Contract lives so amortised vary between one year and five years.

	As at 31.12.2007 £000	Fair value adjustments made in 2008 £000	As at 31.12.2008 £000
Property, plant and equipment	15	–	15
Intangible assets	570	–	570
Non-current assets	585	–	585
Current assets and liabilities:			
Receivables and prepayments	1,788	–	1,788
Payables and accruals	(3,161)	260	(2,901)
Net cash	1,102	–	1,102
Net current liabilities	(271)	260	(11)
Provisions	(250)	–	(250)
Net assets acquired	64	260	324
Purchase consideration	13,020	(2,241)	10,779
Costs of acquisition	64	–	64
Total cost	13,084	(2,241)	10,843
Total goodwill arising	13,020	(2,501)	10,519
	As at 31.12.2007 £000	Movements in 2008 £000	As at 31.12.2008 £000
Cash flows in respect of purchase of businesses			
2007 acquisitions:			
Total consideration	13,020	(2,241)	10,779
Costs of acquisition	64	–	64
	13,084	(2,241)	10,843
Less: deferred and contingent consideration accrued, not yet paid	(3,250)	3,025	(225)
	9,834	784	10,618
Less: net cash acquired	(1,102)	–	(1,102)
	8,732	784	9,516
2005 acquisitions:			
Deferred and contingent consideration, previously accrued, paid in 2007	109	–	109
Total net cash flows in respect of purchase of businesses	8,841	784	9,625

Notes to the financial statements continued

for the year ended 31st December 2008

16 Disposals

On 3rd October 2008, the Group completed the sale of the trade and assets of the Carewatch franchise business to a third party for a consideration of £36,948,000. At the same time the Group sold to the same party, the entire share capital of Carewatch Care Services Limited, a dormant company, for a consideration of £52,000.

	£000
Cash flows in respect of disposal of business	
Total consideration	37,000
Total cash flow in respect of disposal	37,000

Profit on disposal is computed as follows:

	£000
Net assets	
Property, plant and equipment	35
Goodwill	2,906
Trade and other receivables	2,240
Trade and other payables	(595)
Net assets of Carewatch	4,586
Total consideration	37,000
Disposal expenses	(1,358)
Consideration net of expenses	35,642
Profit on disposal	31,056

17 Deferred tax assets

	2008 £000	2007 £000
Pension liability (note 32)	2,404	1,784
Accelerated capital allowances	986	1,083
Intangible assets	(111)	10
Other	479	87
Total recognised deferred tax assets	3,758	2,964

The Group also has unprovided potentially recognisable deferred tax assets of £607,000 in relation to trading losses (2007: £240,000 in relation to short term timing differences) which are currently not expected to reverse. In addition no deferred tax asset has been recognised in relation to available capital losses as described in note 6. All other potentially recognisable tax assets have been recognised and included within non-current assets.

18 Trade and other receivables

	Group		Company	
	2008 £000	2007 £000	2008 £000	2007 £000
Trade receivables:				
– Gross	16,135	20,470	–	–
– Allowance for doubtful debts	(293)	(692)	–	–
Amounts owed by Group companies	–	–	–	16,229
Accrued income and other receivables	6,953	7,262	312	595
Prepayments	1,185	2,571	–	–
Trade and other receivables due within one year	23,980	29,611	312	16,824

	2008 £000
Movement in the allowance for doubtful debts:	
Balance at the beginning of the year	692
Impairment losses recognised	160
Amounts written off as uncollectable	(350)
Amounts recovered during the year	(209)
Balance at the end of the year	293

No comparative information has been presented on the allowance account as reliable information is not available for prior years.

Concentrations of credit risk with respect to trade receivables are limited due to the Group's customer base being large and unrelated. Accordingly, management believe that there is no further credit risk provision required in excess of normal provision for doubtful receivables. All receivables are due from customers resident in and trading in the UK. The net of the gross value of trade receivables and any related provision represents the carrying value which is equal to fair value.

Included in the Group's trade receivable balance are receivables with a carrying value of £6,039,000 which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these receivables is 68 days.

	2008 £000
Ageing of past due but not impaired receivables	
0-30 days	3,176
30-60 days	1,295
60-90 days	1,031
More than 90 days	537
Total	6,039

	2008 £000
Ageing of impaired receivables	
30-60 days past due	77
60-90 days past due	116
More than 90 days past due	1,264
Total	1,457

Notes to the financial statements continued
for the year ended 31st December 2008

19 Current liabilities – falling due within one year

	Group		Company	
	2008 £000	2007 £000	2008 £000	2007 £000
Bank overdrafts (note 21)	2,091	4,504	–	–
Bank loans (note 21)	17,000	–	17,000	–
Derivative financial instruments	2,552	421	2,552	421
Trade payables	3,610	3,256	–	–
Amounts owed to Group companies	–	–	27,667	–
Other payables	3,721	4,020	–	–
Deferred consideration for acquisitions	225	3,250	–	–
Accruals and deferred income	4,746	5,784	53	913
Other UK tax and social security	2,392	3,191	–	–
Employment benefit liabilities (note 24)	2,430	3,122	–	–
Property provisions (note 24)	1,148	1,091	–	–
Total current liabilities	39,915	28,639	47,272	1,334

Of the deferred consideration for acquisitions, £nil (2007: £2,400,000) is contingent upon future profitability of the acquired businesses.

20 Non-current liabilities – amounts falling due after more than one year

	Group		Company	
	2008 £000	2007 £000	2008 £000	2007 £000
Bank loans (note 21)	–	54,000	–	54,000
Claims in respect of clinical incidents (note 24)	3,350	–	–	–
Employment benefit liabilities (note 24)	6,291	3,250	–	–
Property provisions (note 24)	3,055	1,279	–	–
Total non-current liabilities	12,696	58,529	–	54,000

21 Net borrowings

	Interest rates	Group		Company	
		2008 £000	2007 £000	2008 £000	2007 £000
Secured:					
Bank overdrafts and loans	variable	(19,091)	(58,504)	(17,000)	(54,000)
Total borrowings		(19,091)	(58,504)	(17,000)	(54,000)
Cash at bank and in hand		75	536	2,016	333
Net borrowings		(19,016)	(57,968)	(14,984)	(53,667)

At 31st December 2008 and 2007 all the bank overdrafts and loans were secured by a fixed and floating charge over Group assets.

Net borrowings for the Group are summarised as follows:

	Repayable within 1 year £000	Repayable between 1 & 2 years £000	Total £000
Secured:			
Bank overdrafts and loans	(19,091)	–	(19,091)
Total borrowings	(19,091)	–	(19,091)
Cash at bank and in hand	75	–	75
At 31st December 2008	(19,016)	–	(19,016)
At 31st December 2007	(3,968)	(54,000)	(57,968)

Net borrowings for the Company are summarised as follows:

	Repayable within 1 year £000	Repayable between 1 & 2 years £000	Total £000
Secured:			
Bank loans	(17,000)	–	(17,000)
Total borrowings	(17,000)	–	(17,000)
Cash at bank and in hand	2,016	–	2,016
At 31st December 2008	(14,984)	–	(14,984)
At 31st December 2007	333	(54,000)	(53,667)

22 Derivative financial instruments

Counterparties to the financial instruments entered into by the Group are major international financial institutions with high long term credit ratings. The Group monitors its credit exposure to its counterparties via their credit ratings (where applicable) and through its policy thereby limiting its exposure to any one party to ensure that they are within Board approved limits and that there are no significant concentrations of credit risk.

At 31st December 2008 the Group has entered into interest rate derivative contracts to hedge its exposure to changes in interest rates. These contracts are classed as derivative financial instruments. They are initially recognised at fair value at the date each contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resultant gain or loss is recognised within the income statement within finance income or expense. Hedge accounting has not been applied. This practice is considered to be consistent with the requirements of IAS 39 "Financial Instruments: Recognition and Measurement".

Market prices or quotations are not available for the particular derivative contracts that the Group has entered into. In the absence of any such market valuations, fair values have been obtained by taking the settlement values advised at each balance sheet date by the respective counterparty banks.

At 31st December 2008 the Group has entered into two such contracts with a combined notional value of £60,000,000. One, for a notional sum of £45,000,000, has the effect of restricting LIBOR rates on that level of borrowings to a range between 4.50% and 7.00%, whilst the other, for a notional sum of £15,000,000, has the effect of restricting LIBOR rates on that level of borrowings to a range between 4.85% and 7.00%. Under the terms of both contracts, the actual three-month LIBOR rate at defined quarterly strike dates is compared with both floor and cap levels; if this actual rate is either below the floor or above the cap, a cash payment will then be triggered. This cash payment, made three months after each quarterly strike date, would be payable by the Group if the actual rate were below the floor, or to the Group if the rate were above the cap, calculated by applying the interest rate shortfall or excess for one quarter to the notional contracted borrowing. No such payments were made or received in the years ended 31st December 2008 or 2007. No payment is due if actual three-month LIBOR is within the range of the respective floor and cap at the strike date. The contract for the notional sum of £45,000,000 expires in November 2010 whilst that for the notional sum of £15,000,000 expires one month earlier in October 2010.

22 Derivative financial instruments continued

At 31st December 2008 the combined fair value of the two contracts, as advised by the respective counterparty banks, was minus £2,552,000; this negative fair value has been accounted for within current liabilities. At 31st December 2007 the fair value of the same two contracts had been minus £421,000. The movement in the fair value of the liability, amounting to £2,131,000, has been charged to finance expense in the year.

Prior to completion of the disposal of the Carewatch business on 3rd October 2008, the £60,000,000 notional borrowings of the two contracts were at most times similar to the overall level of actual net borrowings held by the Group. The contracts therefore provided a hedge against the effect of interest rate movements on the Group's actual borrowings, although the precise effectiveness of this was tempered to some extent by the contracts being referenced to three-month LIBOR rates whereas interest rates payable on actual borrowings are linked to either bank base rates or one-month LIBOR rates, both of which are generally lower. However, since the Carewatch disposal which realised gross cash consideration of £37,000,000 before expenses, actual Group borrowings have been significantly reduced. This differential could have been eliminated at any time since then by a cash settlement, paid to one or both of the banks, thereby cancelling a sufficient proportion of the contracts to bring the continuing notional borrowing broadly into line with actual or projected actual borrowings. Any cash settlement to be made would have been equivalent to the then fair value of the cancelled contract, which should in turn have been equivalent to the respective discounted net present value of the projected quarterly cash payments that would have arisen had the contracts continued.

No such cancellation was effected in the period between 3rd October 2008 and 31st December 2008, notwithstanding the general policy adopted of not using any financial instrument to enter into what could be regarded as speculative positions. In the opinion of the directors, it would not have been in the interests of the Group to have to settle the associated cash payments required.

23 Financial instruments

The Group has exposure to certain risks arising from its use of financial instruments, these being categorised as market risk, credit risk, liquidity risk and capital risk. This note describes the financial instruments used, their values, the risks to which the Group is exposed and the Group's objectives, policies and processes for measuring and managing them. Unless otherwise stated references to the Group should be considered to apply to the Company as well. Further quantitative information in respect of the financial instruments used and the associated risks is also presented throughout these financial statements and the financial review.

With the exception of the position as at 31st December 2008 with regard to derivative financial instruments referred to in note 22, there have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods.

The principal financial instruments used by the Group, from which financial instrument risk arises, are trade receivables, cash at bank, bank overdrafts, trade and other payables, floating rate bank loans and interest rate derivative contracts. The Board of directors has overall responsibility for the determination of the Group's risk management objectives and policies, the overall objective being to set policies that seek to reduce risk as far as possible without unduly affecting the Group's flexibility and competitiveness.

A summary of financial assets and liabilities (which taken together comprise the financial instruments), measured both at carrying value and fair value, is as follows:

	2008		2007	
	Carrying value £000	Fair value £000	Carrying value £000	Fair value £000
Group				
Financial assets – cash at bank and in hand – sterling	75	75	416	416
Financial assets – cash at bank and in hand – Australian dollars	–	–	120	120
Financial assets – cash and cash equivalents	75	75	536	536
Financial assets – trade receivables	15,842	15,842	19,778	19,778
Financial assets – loans and receivables	15,842	15,842	19,778	19,778
Total financial assets	15,917	15,917	20,314	20,314
Short-term financial liabilities – bank overdrafts	(2,091)	(2,091)	(4,504)	(4,504)
Short-term financial liabilities – trade payables	(3,610)	(3,610)	(3,256)	(3,256)
Short-term financial liabilities – other payables	(3,721)	(3,721)	(4,020)	(4,020)
Short-term financial liabilities – other UK tax and social security	(2,392)	(2,392)	(3,191)	(3,191)
Short-term financial liabilities – bank loans	(17,000)	(17,000)	–	–
Long-term financial liabilities – bank loans	–	–	(54,000)	(54,000)
Financial liabilities at amortised cost	(28,814)	(28,814)	(68,971)	(68,971)
Interest rate derivatives	(2,552)	(2,552)	(421)	(421)
Financial liabilities at fair value	(2,552)	(2,552)	(421)	(421)
Total financial liabilities	(31,366)	(31,366)	(69,392)	(69,392)
Net financial liabilities	(15,449)	(15,449)	(49,078)	(49,078)
	2008		2007	
	Carrying value £000	Fair value £000	Carrying value £000	Fair value £000
Company				
Financial assets – cash at bank and in hand – sterling	2,016	2,016	333	333
Financial assets – cash and cash equivalents	2,016	2,016	333	333
Financial assets – amounts due from Group companies	–	–	16,229	16,229
Financial assets – loans and receivables	–	–	16,229	16,229
Total financial assets	2,016	2,016	16,562	16,562
Financial liabilities – amounts due to Group companies	(27,667)	(27,667)	–	–
Short-term financial liabilities – bank loans	(17,000)	(17,000)	–	–
Long-term financial liabilities – bank loans	–	–	(54,000)	(54,000)
Financial liabilities at amortised cost	(44,667)	(44,667)	(54,000)	(54,000)
Interest rate derivatives	(2,552)	(2,552)	(421)	(421)
Financial liabilities at fair value	(2,552)	(2,552)	(421)	(421)
Total financial liabilities	(47,219)	(47,219)	(54,421)	(54,421)
Net financial liabilities	(45,203)	(45,203)	(37,859)	(37,859)

Notes to the financial statements continued
for the year ended 31st December 2008

23 Financial instruments continued

Financial assets and liabilities determined by category are accordingly as follows:

	Group		Company	
	2008 £000	2007 £000	2008 £000	2007 £000
Financial assets – cash and cash equivalents	75	536	2,016	333
Financial assets – loans and receivables	15,842	19,778	–	16,229
Financial assets – total	15,917	20,314	2,016	16,562
Financial liabilities at amortised cost	(28,814)	(68,971)	(44,667)	(54,000)
Financial liabilities at fair value	(2,552)	(421)	(2,552)	(421)
Net financial liabilities	(15,449)	(49,078)	(45,203)	(37,859)

Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties, other than a forced or liquidation sale and excludes accrued interest.

No financial assets held have been pledged as collateral for liabilities or contingent liabilities except as security against bank borrowings.

Further disclosures on the interest rate derivatives included within financial liabilities at fair value are contained within note 22.

Income and expense in relation to financial instruments are disclosed in note 5.

Market risk

Market risk represents the potential for changes in foreign exchange rates and interest rates to affect the Group's profit and the value of its financial instruments. In general the Group's objective in market risk management is to minimise its exposures to fluctuations within such variables whilst optimising returns. At 31st December 2008 this general objective had been partially modified by the particular position with regard to the interest rate derivative financial instruments referred to in note 22.

Foreign exchange risk

Bank balances denominated in Australian dollars were not hedged as in the view of directors the amounts at risk were not material. In March 2008 all such balances were repatriated to the UK and converted into sterling at a total amount not materially different from the carrying value of £120,000 as at 31st December 2007. Following this repatriation of bank balances the Group no longer has any significant currency exposure to Australian dollars or to any other foreign currency. No sensitivity analysis has therefore been carried out.

Interest rate risk

The interest rate profile of the financial liabilities of the Group and Company was:

	Group floating rate financial liabilities £000	Company floating rate financial liabilities £000
At 31st December 2008 – bank borrowings – all sterling	19,091	17,000
At 31st December 2007 – bank borrowings – all sterling	58,504	54,000

All financial liabilities other than bank borrowings have been excluded from this analysis due to their short-term nature.

Floating rate interest rates that apply to bank borrowings are linked either to LIBOR (in the case of revolving credit loans) or bank base rates (in the case of overdrafts). Revolving credit loans are generally rolled over for periods of one month, so that the LIBOR rate applied will in consequence be, or approximate to, one-month sterling LIBOR.

The interest rate profile of the Group's financial assets was:

	Floating rate financial assets 2008 £000	Financial assets on which no interest received 2008 £000	Total 2008 £000
Currency			
Sterling	75	–	75
At 31st December 2008	75	–	75
	Floating rate financial assets 2007 £000	Financial assets on which no interest received 2007 £000	Total 2007 £000
Currency			
Sterling	411	5	416
Australian dollars	120	–	120
At 31st December 2007	531	5	536

The Group's financial assets of £75,000 (2007: £536,000) comprise certain bank balances that cannot be offset against bank overdraft balances, and cash in hand.

The Company's financial assets at 31st December 2008 of £2,016,000 (2007: £333,000) all consisted of floating rate financial assets. These comprise bank balances; the Company did not have any bank overdraft balances at either 31st December 2007 or 2008 to offset against these.

The floating rate financial assets earn interest at rates based on LIBOR and are all recoverable within one year or on demand. The financial assets on which no interest is received represent cash in hand. The effect of variations in interest rates on finance income generated from these financial assets is considered to be generally not material.

Interest rate risk – sensitivity analysis

Following the disposal of the Carewatch business on 3rd October 2008 the Group's overall net borrowings have averaged approximately £20,000,000. All of these borrowings bear interest at variable rates. The impact of a reduction in the variable interest rate applicable (whether bank base rate or one-month sterling LIBOR) of 1 percentage point would accordingly be to increase Group pre-tax profit by approximately £200,000 per annum, other things being equal. Similarly the impact of an increase of 1 percentage point would be to reduce pre-tax profit by approximately £200,000 per annum.

The impact of interest rate variations on the fair value of the interest rate derivative contracts and the associated cash payments or receipts that could fall due also needs to be considered. Whilst three-month LIBOR rates remain below the contracted floors of either 4.50% or 4.85% (which was the case at 31st December 2008) then this would trigger cash payments under the contracts. If three-month LIBOR were to be 2.25% at a particular strike point, the cash payment immediately following would be £351,000. If the rate were instead to be lower by 1 percentage point, i.e. 1.25%, then this quarterly payment would be higher by £150,000.

If three-month LIBOR were to rise above the cap of 7.00%, then cash receipts for the Group would be triggered to an equal and opposite amount as if the rate were below the floor(s), although in the opinion of the directors the likelihood of this occurring in the lifetime of the contracts (prior to November 2010) is low.

The impact of variations in three-month LIBOR on the fair value of the derivative contracts will depend, inter alia, on the current rate, the expectation of what the rate will be at all future strike points through to the end of the contracts, and assumed discount rates. Quantification is accordingly imprecise. Nonetheless, if the rate of three-month LIBOR (actual and/or expected) were to fall by 1 percentage point, then fair value of the two contracts combined would probably become more negative by an amount in the range £800,000 to £1,200,000, other things being equal. This would result in a charge of an equivalent amount being made to finance expense immediately on recognition.

23 Financial instruments continued

Credit risk

The directors consider that, by the nature of the Group's business and customers, its exposure to credit risk is very limited. In particular, concentrations of credit risk with respect to trade receivables are limited due to the Group's customer base being large and unrelated. Accordingly management believe that there is no further credit risk provision required in excess of normal provision for doubtful receivables. All receivables are due from customers resident in and trading in the United Kingdom. The net of the gross value of trade receivables and any related bad debt provision represents the carrying value, which is equal to fair value.

Credit checks are not generally carried out for new customers given their usual status as large public bodies such as Local Authorities, Primary Care Trusts, Police Authorities and secure institutions. Private patients of the Social Care businesses are requested to pay by direct debit wherever possible. Considerable resource is expended on the Group's credit control activity so as to optimise the control of trade receivables and in particular to minimise debtor days outstanding, overdue receivables and the need for any impairments.

The Group records impairment losses on its trade receivables separately from gross receivables. In 2008 the allowance decreased from £692,000 at 31st December 2007 to £293,000 at 31st December 2008.

An analysis of trade and other receivables is contained in note 18.

Liquidity risk

Liquidity risk reflects the risk that the Group will have insufficient resources to meet its financial obligations as they fall due. The Group's strategy and policy in respect of managing liquidity risk is to ensure that the Group has sufficient liquid funds at all times to meet all of its actual and potential liabilities as they fall due, including anticipated shareholder distributions. Sensitivities are applied to all projections of liabilities and liquid resources to ensure that resources will remain sufficient under all reasonable downside projections.

Liquidity forecasts are produced on a weekly basis, or when drawing on the facilities, to ensure that utilisation of current facilities is optimised; and also on a monthly and quarterly basis to project compliance with covenant compliance targets agreed with the Group's bankers and to ensure that medium-term liquidity is maintained.

The maturity profile of the bank borrowings of the Group and Company, including interest payments (not discounted) at 31st December 2008 was as shown in the table below. Interest payments have been calculated using LIBOR rates at the year-end, except where rates had already been contracted.

	Group 2008 £000	Company 2008 £000
Within one year, or on demand	19,819	17,642
At 31st December 2008	19,819	17,642
	Group 2007 £000	Company 2007 £000
Within one year, or on demand	9,664	4,763
Between one and two years	58,366	58,366
At 31st December 2007	68,030	63,129

Following the disposal of the Carewatch business in October 2008 for a gross cash consideration, before expenses, of £37,000,000, the Group's bank facilities were reduced by an equivalent amount, to a total of £33,000,000. This total facility includes provision of both revolving credit loans and ancillary facilities (being overdrafts, bonds and guarantees). This total facility was further reduced to £29,000,000 on 31st December 2008. Allowing for bonds and guarantees committed from the ancillary facilities, the Group had the following undrawn floating rate committed borrowing facilities available in respect of which all conditions precedent had been met at that date:

	2008 £000	2007 £000
Expiring within one year	5,836	8,874

All the above facilities incur commitment fees at market rates.

Total facilities are scheduled to fall further to £26,000,000 as at 31st March 2009, then to £25,000,000 as at 30th June 2009, then finally to £23,000,000 as at 30th September 2009. All of these reductions were agreed between the Group and its bankers as part of the renegotiation of the terms of the facilities at the time of the Carewatch disposal.

The Group's banking facilities expire in December 2009 and will require renewal at that point. There can be no certainty as to the terms and amounts and duration of this renewal when it takes place. Nonetheless, the directors expect to be able to conclude a renewal on terms which are overall acceptable to the Group. Subject to this qualification, the current facilities are considered to be adequate to meet all of the Group's cash flow requirements for the foreseeable future barring the potential impact of any extreme circumstances that could not reasonably be anticipated.

Capital risk

In managing its capital, the Group's primary objective is to ensure its continued ability to provide a consistent return for its equity shareholders through a combination of capital growth and distributions by way of dividends.

The directors continue to monitor the balance of capital and debt funding for the Group though no formal target is currently being applied. In March 2007 the Group raised £30,500,000, net of expenses, by way of a rights issue, partly to reduce debt levels but primarily to raise funds to pursue acquisitions in its Social Care business. Seven such acquisitions were made in 2007. In October 2008 the Group disposed of its Carewatch business for a gross cash consideration of £37,000,000, before expenses of approximately £1,400,000.

Financial covenants have been agreed with the Group's bankers. In 2008 the Group has successfully renegotiated certain of these to better reflect the changing capital structure of the Group. Fees of £400,000 have been paid for these covenant amendments.

Following renegotiation in October 2008 (following the Carewatch disposal), the maximum level of the ratio of net borrowings to profit before interest, depreciation and amortisation ("EBITDA") was set at 2.25 to 1, measured quarterly, until after March 2009 when it falls to 2.00 to 1. The actual ratio as at 31st December 2008 was 1.27 to 1.

Financial covenants also include the ratio of EBITDA to bank interest payable and a tangible net worth test.

Following the Carewatch disposal, the EBITDA to bank interest payable ratio covenant has been renegotiated. At 31st December 2008 the minimum ratio was set at 2.75 to 1; this will rise to 3.25 to 1 at 31st March 2009, 4.00 to 1 at 30th June 2009 then 4.50 to 1 thereafter. The actual ratio as at 31st December 2008 was 3.63 to 1.

The tangible net worth (being net assets less net intangible assets) test has also been renegotiated. On 5th March 2009 the minimum ratio was set at negative £25,000,000; this minimum will change to negative £23,000,000 at 31st March and 30th June 2009, then to negative £21,300,000 at 30th September 2009. The actual figure at 31st December 2008 was negative £20,145,000.

Notes to the financial statements continued
for the year ended 31st December 2008

24 Provisions

	Claims in respect of clinical incidents 2008 £000	Pensions 2008 £000	Property 2008 £000	Total 2008 £000
Group – 2008				
At 1st January 2008	–	6,372	2,370	8,742
Contributions paid	–	(3,658)	–	(3,658)
Current service cost	–	447	–	447
Finance credit	–	(223)	–	(223)
Actuarial loss	–	5,783	–	5,783
Charge to income statement	3,458	–	2,716	6,174
Utilised in the year	(108)	–	(1,043)	(1,151)
Unwinding of discount	–	–	160	160
At 31st December 2008	3,350	8,721	4,203	16,274
Provisions estimated to be settled after more than one year	3,350	6,291	3,055	12,696
Provisions estimated to be settled within one year	–	2,430	1,148	3,578
Total provisions	3,350	8,721	4,203	16,274
Group – 2007				
At 1st January 2007	–	11,990	2,739	14,729
Contributions paid	–	(2,742)	–	(2,742)
Current service cost	–	573	–	573
Finance credit	–	(182)	–	(182)
Actuarial gain	–	(3,267)	–	(3,267)
Charge to income statement	–	–	571	571
Utilised in the year	–	–	(1,304)	(1,304)
Acquired with subsidiary undertakings	–	–	238	238
Unwinding of discount	–	–	126	126
At 31st December 2007	–	6,372	2,370	8,742
Provisions estimated to be settled after more than one year	–	3,250	1,279	4,529
Provisions estimated to be settled within one year	–	3,122	1,091	4,213
Total provisions	–	6,372	2,370	8,742

The Company carried no provisions at either 31st December 2008 or 31st December 2007.

Pensions

The actuarial deficits on the Group's two defined benefit pension schemes total £8,721,000 (2007: £6,372,000). The assumptions used in calculating the combined deficit, and description of the schemes and their assets and liabilities generally, are further described in note 32.

Property

The Group has a number of properties that are either vacant or sublet at a discount.

The Group property provision of £4,203,000 (2007: £2,370,000) comprises £2,351,000 (2007: £894,000) in respect of lease contracts for such properties no longer occupied by the Group, £720,000 (2007: £285,000) in respect of associated lease dilapidations, and £1,132,000 (2007: £1,191,000) in respect of lease dilapidation obligations relating to properties that continue to be occupied. Dilapidations payments are assumed to occur at the end of each relevant lease.

Provision has been made for onerous lease costs taking into account estimates of the length of time properties will be vacant (net of any potential sub-lease income where this can be estimated with a high degree of probability), together with any dilapidation costs and other costs associated with the termination or disposal of leases. In determining the provision for vacant properties, the cash flows have been discounted using the Group's weighted average cost of capital. The estimates used in determining the appropriate level of provision represent management's best view of likely market conditions after taking external advice. At 31st December 2008, the management view adopted has been more cautious than previously, in view of the property market conditions prevailing at that date and subsequently. As a consequence, the provisions made for each property have in many cases been increased significantly from the previous balance sheet date.

Actual activity may nonetheless differ from these estimates due to the effect of future changes in the property market or subsequent business decisions. These differences may have a material impact on the provisions established for these matters.

Clinical incidents

By the nature of the operations carried out by the Primary Care business segment, the Group from time to time receives notification of clinical incidents which could conceivably lead to claims for damages being made against the Group on the grounds of negligence or other reasons. In the majority of cases such incidents, having been notified, do not in fact lead to a claim being made. Even if claims are made, they may be laid against parties other than the Group. In any event, even if claims are ultimately laid against the Group, they will generally be covered by the Group's insurers subject only to relatively minor excesses. Nonetheless it is possible that in certain circumstances the Group could face a material liability when presented with such claims. Time lags between an original incident and a claim being submitted could typically be long so at any point in time the likelihood of the Group facing such a liability may be difficult to assess.

At 31st December 2008, there were two such claims outstanding where, in the opinion of directors, it was more likely than not that a liability will fall on the Group. The claims arose from incidents that took place in 2001 and 2004. In one case, any liability that does arise would be shared with a third party in a proportion not yet determined. Assessment of the likely eventual liabilities that may arise from these two claims is difficult for the reasons set out above. Nonetheless, having taken appropriate external advice, directors have concluded that the most likely outcome, out of a wide range of possible outcomes, is that an eventual liability of £3,350,000 (including costs) will fall on the Group for the two claims combined. A provision has accordingly been made for this amount. The charge taken to the income statement for the year ended 31st December 2008 is £3,458,000, which includes £108,000 being the cost of legal advice already incurred.

25 Share capital

	2008 Number	2008 £000	2007 as restated Number	2007 as restated £000
Authorised				
Ordinary shares of 10p each				
At 1st January	200,000,000	20,000	96,000,000	9,600
Authorised during the year	–	–	104,000,000	10,400
At 31st December	200,000,000	20,000	200,000,000	20,000
Allotted, issued and fully paid				
Ordinary shares of 10p each				
At 1st January	112,844,209	11,284	87,633,539	8,763
Issued during the year	–	–	25,210,670	2,521
At 31st December	112,844,209	11,284	112,844,209	11,284

Notes to the financial statements continued
for the year ended 31st December 2008

25 Share capital continued

On 9th February 2007 approval was given for the authorised share capital of the Company to be increased to £12,200,000, by the creation of 26,000,000 new ordinary shares of 10 pence each. The prior year figures have also been restated to reflect the further increase of the authorised share capital to £20,000,000, by the creation of 78,000,000 new ordinary shares of 10 pence each, on 26th April 2007.

In March 2007 a total of 25,037,620 ordinary 10p shares were issued by way of a 2 for 7 rights issue at 130 pence per ordinary share. A further 173,050 10 pence ordinary shares were issued during the year on exercise of share options, at prices ranging from 121.16 pence to 157.12 pence per ordinary share. Total proceeds of all issues in the year, after associated expenses of issue which totalled £2,063,000, amounted to £30,735,000.

The ordinary shares in issue are considered by the Company to be capital in nature. Neither the Group nor the Company are subject to any externally imposed capital requirements.

26 Share premium account and reserves

	Share premium account 2008 £000	Share payment reserve 2008 £000	Other reserves 2008 £000	Retained (losses)/ earnings 2008 £000
Group – 2008				
At 1st January 2008	71,439	931	864	(37,270)
Share-based payments	–	456	–	–
Actuarial losses arising in defined benefit pension schemes	–	–	–	(5,783)
Deferred taxation arising on actuarial losses	–	–	–	1,619
Profit for the year	–	–	–	30,352
Dividends paid to equity shareholders	–	–	–	(1,128)
At 31st December 2008	71,439	1,387	864	(12,210)

At 31st December 2008, goodwill written off in prior years directly against retained earnings/(losses) in respect of subsidiaries still held by the Group was £16,491,000 (31st December 2007: £16,891,000).

	Share premium account 2008 £000	Share payment reserve 2008 £000	Other reserves 2008 £000	Retained earnings/ (losses) 2008 £000
Company – 2008				
At 1st January 2008	71,439	931	25,750	40,664
Share-based payments	–	456	–	–
Loss for the year	–	–	–	(55,691)
Dividends paid to equity shareholders	–	–	–	(1,128)
At 31st December 2008	71,439	1,387	25,750	(16,155)

Included in other reserves of the Company at 31st December 2008 are £25,750,000 of distributable reserves (2007: £25,750,000) and no non-distributable reserves (2007: £nil). These other reserves comprise foreign exchange, acquisition and merger reserves and reserves arising from the cancellation of a share premium account, all arising in the period from 1989 to 1992. The retained earnings of the Company as at 31st December 2008 include £(49,291,000) that is categorised as distributable (2007: £7,528,000) and £33,136,000 that is non-distributable (2007: £33,136,000). These non-distributable reserves within retained earnings relate to the receipt of a dividend from another Group company as part of a restructuring carried out in 2002, partially offset by subsequent impairments in investments in Group companies.

On 27th February 2009, subsequent to the year end, the company received a dividend of £60,000,000 from its subsidiary company, Helenus Limited.

	Share premium account 2007 £000	Share payment reserve 2007 £000	Other reserves 2007 £000	Retained (losses)/ earnings 2007 £000
Group – 2007				
At 1st January 2007	43,225	951	864	(41,888)
Issue of shares	28,214	–	–	–
Share-based payments	–	(20)	–	–
Actuarial gains arising in defined benefit pension schemes	–	–	–	3,267
Deferred taxation arising on actuarial gains	–	–	–	(1,096)
Profit for the year	–	–	–	5,829
Dividends paid to equity shareholders	–	–	–	(3,382)
At 31st December 2007	71,439	931	864	(37,270)

	Share premium account 2007 £000	Share payment reserve 2007 £000	Other reserves 2007 £000	Retained earnings/ (losses) 2007 £000
Company – 2007				
At 1st January 2007	43,225	951	25,750	47,304
Issue of shares	28,214	–	–	–
Share-based payments	–	(20)	–	–
Loss for the year	–	–	–	(3,258)
Dividends paid to equity shareholders	–	–	–	(3,382)
At 31st December 2007	71,439	931	25,750	40,664

All categories of reserve disclosed above are considered by both Group and Company to be capital in nature. Neither the Group nor the Company are subject to any externally imposed capital requirements.

27 Statement of changes in equity

	2008 £000	2007 £000
Group		
Net recognised income	26,188	8,000
Shares issued during the year	–	30,735
Dividends paid to equity shareholders	(1,128)	(3,382)
Increase/(decrease) in share payment reserve	456	(20)
Increase in total equity	25,516	35,333
Total equity at the beginning of the year	47,248	11,915
Total equity at the end of the year	72,764	47,248

Notes to the financial statements continued
for the year ended 31st December 2008

27 Statement of changes in equity continued

	2008 £000	2007 £000
Company		
Net recognised expense	(55,691)	(3,258)
Shares issued during the year	-	30,735
Dividends paid to equity shareholders	(1,128)	(3,382)
Increase/(decrease) in share payment reserve	456	(20)
(Decrease)/increase in total equity	(56,363)	24,075
Total equity at the beginning of the year	150,068	125,993
Total equity at the end of the year	93,705	150,068

28 Note to the cash flow statements

	Group		Company	
	2008 £000	2007 £000	2008 £000	2007 £000
Reconciliation of profit/(loss) to cash generated from operations				
Profit/(loss) after tax for the year	30,352	5,829	(55,691)	(3,258)
Adjustments for:				
Tax expense/(credit)	1	3,085	-	(1,395)
Finance income	(238)	(213)	-	-
Finance expense	6,233	4,447	5,640	3,954
Impairment of investments	-	-	50,000	-
Share-based payments	456	(20)	-	-
Amortisation of intangible assets	374	493	-	-
Depreciation of property, plant and equipment	1,411	1,573	-	-
(Gain)/loss on sale of property, plant and equipment	(1)	4	-	-
Gain on sale of operations	(31,056)	(156)	-	-
Changes in working capital:				
Decrease/(increase) in trade and other receivables	3,329	610	16,512	(7,703)
Increase/(decrease) in trade and other payables	1,597	(4,739)	26,967	1,121
Decrease in provisions	(1,538)	(2,903)	-	-
Cash generated from/(used in) operations	10,920	8,010	43,428	(7,281)
	Group		Company	
	2008 £000	2007 £000	2008 £000	2007 £000
Reconciliation of net cash flow to movement in net debt				
(Decrease)/increase in cash and cash equivalents	(461)	444	1,683	333
Decrease in loans from banks	37,000	16,000	37,000	16,000
Decrease in bank overdrafts	2,413	2,286	-	-
	38,952	18,730	38,683	16,333
Net debt at the beginning of the year	(57,968)	(76,698)	(53,667)	(70,000)
Net debt at the end of the year	(19,016)	(57,968)	(14,984)	(53,667)

29 Operating lease commitments

The Group has numerous premises operated under leases whose terms, conditions and expiry dates vary considerably, some of which are no longer occupied by the Group. In addition, the Group leases items of plant and equipment and in particular has entered into a contract hire agreement to lease motor vehicles.

At 31st December 2008 the total future minimum lease payments under non-cancellable operating leases were as follows:

	Plant and equipment including motor vehicles £000	Land and buildings occupied by Group £000	Land and buildings not occupied by Group £000	Total net £000
For leases expiring				
within one year	94	259	31	384
between two and five years	365	4,843	1,974	7,182
beyond five years	2,816	7,358	3,352	13,526
	3,275	12,460	5,357	21,092

At 31st December 2007 the total future minimum lease payments under non-cancellable operating leases were as follows:

	Plant and equipment including motor vehicles £000	Land and buildings occupied by Group £000	Land and buildings not occupied by Group £000	Total net £000
For leases expiring				
within one year	77	206	21	304
between two and five years	484	4,205	307	4,996
beyond five years	–	5,508	3,898	9,406
	561	9,919	4,226	14,706

Commitments in respect of operating leases for land and buildings are disclosed net of contracted sub-lease income.

30 Employees

	2008 £000	2007 £000
Employee costs for the Group		
Wages and salaries	103,293	112,226
Social Security costs	7,155	7,608
Pension costs	1,051	1,066
Share-based payments	456	(20)
	111,955	120,880
	2008 £000	2007 £000
Average number of persons employed		
Full time	1,291	1,521
Part time	6,890	7,186
	8,181	8,707

30 Employees continued

	2008 £000	2007 £000
Employee numbers by business segment		
Social Care	7,079	7,515
Primary Care	1,102	1,192
	8,181	8,707

The Company had no employees (2007: nil) during the year.

31 Compensation of directors and key management

	2008 £000	2007 £000
Directors and other key management		
Salaries and short-term employee benefits	1,438	1,685
Social Security costs	162	203
Post-employment benefits	215	298
Termination benefits	994	107
Share-based payments	375	30
	3,184	2,323
	2008 £000	2007 £000
Directors		
Aggregate emoluments	1,170	805
Employer contributions to money purchase pension schemes	42	41
	1,212	846

Aggregate emoluments of directors include £570,000 (2007: Nil) compensation for loss of office.

The detailed numerical analysis of directors' aggregate emoluments is included in the table in the remuneration report on page 30 which forms part of these financial statements.

32 Pension commitments

The Group has accounted for pensions in accordance with IAS 19 and the disclosures given below are those required by that standard.

Group defined benefit pension schemes

The Group operates two funded pension schemes providing benefits based on final pensionable salary. The two schemes are the Nestor Healthcare Group Retirement Benefits Scheme (the Nestor Scheme) and the Healthcall Group Limited Pension Scheme (the Healthcall Scheme). Both schemes are closed to new members. The schemes are administered by Trustees separately from the affairs of the Group and are contracted out of the additional component of the State Pension Scheme.

Neither scheme holds any investment in any financial instrument issued by the Group. Neither are any of the schemes' property or other assets occupied or used by the Group.

There are no informal practices applied that might give rise to any constructive obligations.

Nestor Scheme

Watson Wyatt Limited, consulting actuaries, carried out an actuarial valuation of the Nestor Scheme as at 5th April 2006. On the actuarial basis used, as at that date, the assessed value of the assets was 75% of the value placed on the liabilities in respect of benefits earned to 5th April 2006, allowing for expected future increases in pensionable earnings to Normal Pension Age, treating the scheme as an ongoing entity. The funding ratio of 75% represented a shortfall of assets compared with the technical provisions of £6,660,000.

The market value of the investments held in the Nestor Scheme as at the valuation date was £20,349,000. In addition there were pensions in payment secured by the purchase of annuities.

The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of investment return on future net cash flow and the rate of increase in pensionable earnings. These rates were set relative to an assumed long-term rate of price inflation of 3.0% per annum.

The assumed future rate of investment return, used to discount projected income and outgoing benefits, was a real rate of 1.3% per annum relative to price inflation for pensioners and 3.5% per annum before retirement and 1.3% per annum after retirement for non-pensioners. Pensionable earnings were assumed to increase on average at a rate of 2.0% per annum ahead of price inflation with promotional increases assumed in addition.

The employer's contribution rate, currently 24.2% (39.2% for certain past executive directors), is calculated using the projected unit method. The shortfall of assets as at 5th April 2006 of £6,660,000 is being met by a schedule of employer contributions designed to eliminate it by no later than April 2013. As the Nestor Scheme is closed to new members, under the projected unit method the employer's contribution rate will increase as the members of that scheme approach retirement.

Healthcall Scheme

Watson Wyatt Limited, consulting actuaries, carried out an actuarial valuation of the Healthcall Scheme as at 1st November 2006. On the actuarial basis used, as at that date, the assessed value of the assets was 62% of the capitalised value of the accrued benefits, allowing for expected future increases in pensionable earnings to Normal Pension Age, treating the scheme as an ongoing entity. The funding ratio of 62% represented a shortfall of assets compared with the technical provisions of £6,630,000.

The market value of the investments held in the scheme as at the valuation date was £10,930,000. In addition there were pensions in payment secured by the purchase of annuities.

The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of investment return and the rate of increase in pensionable earnings. These rates were set relative to an assumed long-term rate of price inflation of 3.0% per annum.

The assumed future rate of investment return, used to discount projected income and outgoing benefits, was a real rate of 1.2% per annum relative to price inflation for pensioners and 3.6% per annum before retirement and 1.2% per annum after retirement for non-pensioners. Pensionable earnings were assumed to increase on average at the same rate as price inflation.

The employer's contribution rate, currently 29.5%, is calculated using the projected unit method. The shortfall of assets as at 1st November 2006 of £6,630,000 is being met by a schedule of employer contributions designed to eliminate it by no later than October 2013. As the Healthcall Scheme is closed to new members, under the projected unit method the employer's contribution rate will increase as the members of that scheme approach retirement.

Other schemes

The Group also operates several defined contribution schemes with varying rates of employer contribution.

	2008 £000	2007 £000
Pension charge		
Current service cost of defined benefit schemes	447	573
Group contributions to defined contribution schemes	394	381
	841	954
Net finance credit relating to defined benefit schemes	(223)	(182)
Pension charge	618	772

Notes to the financial statements continued

for the year ended 31st December 2008

32 Pension commitments continued

Until 5th April 2007 the costs of expenses associated with the Nestor Scheme were implicit in both the service cost and the employer contributions payable. From 6th April 2007 for the Nestor Scheme, and for the whole of both years for the Healthcall Scheme, the costs of expenses have not been included in the service cost or the pension charge, being paid direct by the Group and charged elsewhere to the income statement. The cost of the expenses associated with the Nestor Scheme in the year was £73,000 (2007: £133,000). The cost of the expenses associated with the Healthcall Scheme was £133,000 (2007: £139,000).

At 31st December 2008 £87,000 employer contributions had yet to be paid to the respective schemes (2007: £76,000).

Valuations

The valuation used for IAS 19 disclosures has been based on the results of an actuarial valuation of the Nestor Scheme as at 5th April 2006 and of an actuarial valuation of the Healthcall Scheme as at 1st November 2006, both updated by Watson Wyatt Limited to take account of the requirements of IAS 19 in order to assess the liabilities of the schemes at 31st December 2008. Assets of the schemes are stated at their market valuation at 31st December 2008.

The accounting policy applied in respect of recognised actuarial gains and losses is to account for them immediately and in full within the statement of recognised income and expense.

Mortality assumptions

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables, and include an allowance for future improvements in longevity. The assumptions are equivalent to expected longevity at age 65 for members in normal health approximately as follows:

- pensioners currently aged 65: males 22.0 years, females 24.8 years
- non-pensioners currently aged 45: males 23.1 years, females 25.9 years.

Commutation assumptions

An allowance has been made in the assumptions adopted as at both 31st December 2008 and 31st December 2007 for members to commute pensions at retirement. It has been assumed that members commute 20% of their pension, on the basis of the commutation rates currently in force.

	2008	2007
Financial assumptions used to calculate the schemes' liabilities		
Valuation method	Projected unit	Projected unit
Discount rate	6.71%	5.90%
Inflation rate	3.00%	3.30%
Increases to pensions in payment and deferred pensions*	3.00%	3.30%
Salary increases	3.00%	5.25%

* Different increases assumed for certain elements of pension

	2008	2007
Financial assumptions used to calculate the schemes' net service costs for the year		
Valuation method	Projected unit	Projected unit
Discount rate	5.90%	5.10%
Inflation rate	3.30%	3.00%
Increases to pensions in payment and deferred pensions*	3.30%	3.00%
Salary increases	3.30%	4.95%

* Different increases assumed for certain elements of pension

	Long-term rate of return expected on 31st December 2008	Value at 31st December 2008 £000	Long-term rate of return expected on 31st December 2007	Value at 31st December 2007 £000
Assets in the schemes and the expected rates of return				
Equities	8.20%	16,651	8.00%	25,596
Bonds	5.30%	8,698	5.10%	7,722
Other	6.10%	1,096	5.40%	1,420
Total market value of assets		26,445		34,738
Present value of schemes' liabilities		(35,166)		(41,110)
Deficit in the schemes – pension liabilities		(8,721)		(6,372)
Related deferred tax asset (note 17)		2,404		1,784
Net pension liability		(6,317)		(4,588)

The expected return for each asset class reflects a combination of historical performance analysis, the forward looking views of the financial markets (as suggested by the yields available) and the views of investment organisations. Consideration is also given to the rate of return expected to be available for reinvestment. The overall expected rate of return on assets is derived as the weighted average of the expected returns from each of the main asset classes.

	2008 £000	2007 £000
Movement in the deficit in the schemes during the year		
Deficit in the schemes at the beginning of the year	(6,372)	(11,990)
Contributions paid	3,658	2,742
Current service cost	(447)	(573)
Net finance credit	223	182
Actuarial (loss)/gain	(5,783)	3,267
Deficit in the schemes at the end of the year	(8,721)	(6,372)

Components of defined benefit cost for the year

	2008 £000	2007 £000
Analysis of amounts charged to operating profit		
Current service cost	447	573
Analysis of amounts charged to finance expense		
Interest on pension scheme liabilities	2,411	2,282
Expected return on assets in the pension schemes	(2,634)	(2,464)
Net credit to finance expense	(223)	(182)
Total income statement charge before deduction for tax	224	391

	2008 £000	2007 £000
Analysis of amounts recognised in the statement of recognised income and expense		
Actual return on assets	(10,839)	808
Expected return on assets	(2,634)	(2,464)
Actuarial loss on assets	(13,473)	(1,656)
Experience gains arising on the scheme liabilities	7,690	4,923
Actuarial (loss)/gain recognised in the statement of recognised income and expense	(5,783)	3,267

Notes to the financial statements continued
for the year ended 31st December 2008

32 Pension commitments continued

	2008 £000	2007 £000			
Reconciliation of the present value of defined benefit obligation ("DBO")					
Present value of DBO at the beginning of the year	41,110	44,982			
Service cost	447	573			
Interest cost	2,411	2,282			
Employee contributions	103	119			
Actuarial gain	(7,690)	(4,923)			
Actual benefit payments including expenses	(1,215)	(1,923)			
Present value of DBO at the end of the year	35,166	41,110			
	2008 £000	2007 £000			
Reconciliation of the fair value of assets					
Present value of assets at the beginning of the year	34,738	32,992			
Expected return on assets	2,634	2,464			
Actuarial loss	(13,473)	(1,656)			
Group contributions	3,658	2,742			
Employee contributions	103	119			
Actual benefit payments including expenses	(1,215)	(1,923)			
Fair value of assets at the end of the year	26,445	34,738			
	2008 £000	2007 £000	2006 £000	2005 £000	2004 £000
History of experience adjustments					
Present value of defined benefit obligations	(35,166)	(41,110)	(44,982)	(45,866)	(39,448)
Fair value of scheme assets	26,445	34,738	32,992	29,645	24,105
Deficit in the schemes at the end of the year	(8,721)	(6,372)	(11,990)	(16,221)	(15,343)
	2008	2007	2006	2005	2004
Experience gains/(losses) on scheme liabilities:					
Amount (£'000)	7,690	4,923	2,978	(4,306)	(576)
Percentage of present value of scheme liabilities	21.9%	12.0%	6.6%	(9.4%)	(1.5%)
Experience (losses)/gains on scheme assets:					
Amount (£'000)	(13,473)	(1,656)	424	3,252	428
Percentage of present value of scheme assets	50.9%	(4.8%)	1.3%	11.0%	1.8%

The cumulative amount of actuarial losses, net of gains, recognised in the statement of recognised income and expense since adoption of IFRS is £316,000 (2007: gain £5,467,000).

33 Share-based payments

Fair values have been calculated and charged to operating profit for all share-based payments. These consist of grants of shares and share options under various schemes to directors, key managers and other employees. Assumptions used and results of the fair value calculations are set out below.

	Exercise price pence	Shares under option at 01.01.07	Shares under option at 31.12.07	Shares under option at 31.12.08	Vesting periods
Savings Related Share Option Scheme – 2003 awards	147.63	38,886	11,122	890	3 to 5 years
Savings Related Share Option Scheme – 2004 awards	147.48	103,279	–	–	3 years
Savings Related Share Option Scheme – 2005 awards	113.84	212,603	155,015	12,377	3 to 5 years
Savings Related Share Option Scheme – 2007 awards	140.04	–	237,935	107,276	3 to 5 years
Savings Related Share Option Scheme – 2008 awards	41.40	–	–	728,531	3 to 5 years
Share Option Plan 2002 – 2003 awards	256.98 and 282.82	208,248	176,934	103,997	3 years
Share Option Plan 2002 – 2005 awards	143.53 and 107.59	1,214,509	1,013,551	–	3 years
Long-term Incentive Plan – deferred shares – 2004 award	–	13,076	–	–	3 years
Long-term Incentive Plan – matching shares – 2004 award	–	55,405	–	–	3 years
Long-term Incentive Plan – deferred shares – 2005 award	–	27,923	35,901	–	3 years
Long-term Incentive Plan – matching shares – 2005 award	–	156,652	–	–	3 years
Performance Share Plan – 2006 award	–	952,930	1,014,179	910,245	3 years
Performance Share Plan – 2007 award	–	–	636,217	542,380	3 years
Performance Share Plan – 2008 awards	–	–	–	1,352,312	3 years
		2,983,511	3,280,854	3,758,008	

Assumptions

The share price used in the calculation of fair value has in each case been the share price on the date of grant.

SAYE awards must be exercised within six months of vesting. Assumed life terms have accordingly been set at either 3.25 years or 5.25 years for these awards. Share Option Plan 2002 awards may be exercised within three to ten years from the date of award. Exercise of these options is assumed to be spread through this period. Fixed three year terms have been assumed for the Long-term Incentive Plan ("LTIP") and Performance Share Plan ("PSP") awards.

The expected volatility is based on historical volatility over periods which correspond to the forward life assumptions for each category of award, being 3.25 to 5.25 years for SAYE awards, six years effective average for Share Option Plan 2002 awards and three years for LTIP and PSP awards. Two periods of exceptional volatility have been excluded, with additional historical data substituted in their place.

The risk-free rate of interest assumed is the rate of interest obtainable from government securities over the same expected terms as have been used for the volatility calculations.

The dividend yield assumed has been calculated using publicly available information at the respective grant dates, being the historical dividend yield.

The LTIP matching shares awards and PSP awards are subject to a total shareholder return ("TSR") vesting condition. This condition has been allowed for in the calculations of fair value.

Lapsing rates of 10% per annum have been assumed for SAYE awards, 7.5% per annum for Share Option awards and 0% for LTIP and PSP awards.

The options outstanding at 31st December 2008 had a weighted average remaining contractual life of 3.2 years (2007: 5.4 years).

Results of calculations of fair value

The fair value of share-based transactions has been calculated using a stochastic simulation modelling technique, developed in consultation with an independent third party advisor, Hewitt New Bridge Street. The charge so calculated for 2008 is £456,000 (2007: credit of £20,000). The elements of this charge/(credit) analysed by share-based transaction are as follows:

Notes to the financial statements continued
for the year ended 31st December 2008

33 Share-based payments continued

	Fair value of one option £	Total fair value charge 2008 £000	Total fair value charge/ (credit) 2007 £000
Savings Related Share Option Scheme – 2003 awards	0.47	–	3
Savings Related Share Option Scheme – 2004 awards	0.54	–	5
Savings Related Share Option Scheme – 2005 awards	0.69 and 0.73	9	35
Savings Related Share Option Scheme – 2007 awards	0.91 and 1.05	57	27
Savings Related Share Option Scheme – 2008 awards	0.20 and 0.21	21	–
Share Option Plan 2002 – 2003 awards	0.72 and 0.87	–	–
Performance Share Plan – 2006 award	0.84	113	251
Performance Share Plan – 2007 award	1.07	168	174
Performance Share Plan – 2008 awards	0.39 and 0.26	88	–
Writebacks of charges taken in prior years		–	(515)
Total charge/(credit)		456	(20)

Where earnings per share targets defined within plan rules were not met, amounts previously charged have been credited back to the income statement.

34 Share option schemes

The following table sets out options in issue under the various Company schemes at the beginning and end of the year and movements during the year. Share options in issue expire after a certain time and exercise dates vary. Exercise rights are subject to the rules of the schemes and share options in issue are not normally exercisable until the expiry of a period of at least three years. In addition, achievement of performance targets is normally required in all schemes except the SAYE Scheme.

No options were exercised during the year. The weighted average share price for share options exercised during 2007 was 183p.

The number of options that had vested and were exercisable at 31st December 2008 was 365,052 (2007: 643,079). The average exercise price of these vested and exercisable options was 330.47p at 31st December 2008 (2007: 308.28p).

During the year to 31st December 2007 an adjustment was made to the number of options in issue so as to add a proportion, calculated to be 6.4274%, equivalent to the bonus element of the March 2007 rights issue. Associated with this, an adjustment was also made in 2007 to the exercise price of each option in issue to reduce that by the same proportion.

Movements in the year to 31st December 2008 were as follows:

Date of issue	Adjusted option price pence	In issue 1st Jan 2008	Granted in the year	Exercised in the year	Lapsed in the year	In issue 31st Dec 2008
Company Share Option Plan 1996						
April 1998	222.22	4,961	–	–	(4,961)	–
April 1999	382.89	5,410	–	–	–	5,410
October 1999	560.48	8,798	–	–	–	8,798
May 2000	399.33	47,188	–	–	(4,262)	42,926
March 2001	509.74	8,910	–	–	–	8,910
October 2001	479.20	6,260	–	–	–	6,260
April 2002	511.15	5,868	–	–	(5,868)	–
		87,395	–	–	(15,091)	72,304
Employee Share Option Scheme 1996						
April 1998	222.22	6,580	–	–	(6,580)	–
April 1999	382.89	8,818	–	–	–	8,818
May 2000	399.33	54,744	–	–	(9,667)	45,077
March 2001	509.74	32,766	–	–	(6,375)	26,391
October 2001	479.20	4,487	–	–	–	4,487
April 2002	511.15	25,433	–	–	(25,433)	–
		132,828	–	–	(48,055)	84,773
Share Option Plan 2002						
July 2002	251.35	125,722	–	–	(35,011)	90,711
October 2002	199.67	120,200	–	–	(120,200)	–
June 2003	256.98	119,463	–	–	(50,587)	68,876
November 2003	282.82	57,471	–	–	(22,350)	35,121
January 2005	143.53	915,954	–	–	(915,954)	–
November 2005	107.59	97,597	–	–	(97,597)	–
		1,436,407	–	–	(1,241,699)	194,708
Savings Related Share Option Scheme						
April 2003	147.63	11,122	–	–	(10,232)	890
April 2005	113.84	155,015	–	–	(142,638)	12,377
May 2007	140.04	237,935	–	–	(130,659)	107,276
June 2008	41.40	–	790,288	–	(61,757)	728,531
		404,072	790,288	–	(345,286)	849,074
Total		2,060,702	790,288	–	(1,650,131)	1,200,859

Notes to the financial statements continued
for the year ended 31st December 2008

34 Share option schemes continued

Movements in the year to 31st December 2007 were as follows:

Date of issue	Adjusted option price pence	In issue 1st Jan 2007	Adjustment of 6.4274% in the year	Granted in the year	Exercised in the year	Lapsed in the year	In issue 31st Dec 2007
Company Share Option Plan 1996							
April 1998	222.22	4,661	300	-	-	-	4,961
October 1998	319.00	4,602	296	-	-	(4,898)	-
April 1999	382.89	7,998	514	-	-	(3,102)	5,410
October 1999	560.48	12,915	830	-	-	(4,947)	8,798
May 2000	399.33	59,110	3,799	-	-	(15,721)	47,188
March 2001	509.74	12,248	787	-	-	(4,125)	8,910
October 2001	479.20	11,764	756	-	-	(6,260)	6,260
April 2002	511.15	11,028	709	-	-	(5,869)	5,868
		124,326	7,991	-	-	(44,922)	87,395
Employee Share Option Scheme 1996							
April 1998	222.22	6,183	397	-	-	-	6,580
April 1999	382.89	8,285	533	-	-	-	8,818
May 2000	399.33	57,260	3,680	-	-	(6,196)	54,744
March 2001	509.74	42,844	2,754	-	-	(12,832)	32,766
October 2001	479.20	47,353	3,044	-	-	(45,910)	4,487
April 2002	511.15	39,522	2,540	-	-	(16,629)	25,433
		201,447	12,948	-	-	(81,567)	132,828
Share Option Plan 2002							
July 2002	251.35	130,297	8,375	-	-	(12,950)	125,722
October 2002	199.67	171,764	11,040	-	-	(62,604)	120,200
June 2003	256.98	112,248	7,215	-	-	-	119,463
November 2003	282.82	96,000	6,170	-	-	(44,699)	57,471
January 2005	143.53	1,122,806	72,167	-	(119,160)	(159,859)	915,954
November 2005	107.59	91,703	5,894	-	-	-	97,597
		1,724,818	110,861	-	(119,160)	(280,112)	1,436,407
Savings Related Share Option Scheme							
April 2001	420.19	4,073	-	-	-	(4,073)	-
April 2002	427.33	9,019	-	-	-	(9,019)	-
April 2003	147.63	38,886	671	-	(8,108)	(20,327)	11,122
April 2004	147.48	103,279	-	-	(26,620)	(76,659)	-
April 2005	113.84	212,603	9,216	-	(19,162)	(47,642)	155,015
May 2007	140.04	-	-	280,100	-	(42,165)	237,935
		367,860	9,887	280,100	(53,890)	(199,885)	404,072
Total		2,418,451	141,687	280,100	(173,050)	(606,486)	2,060,702

35 Share awards

Awards have been made to directors and certain senior managers in each of 2006, 2007 and 2008 under the Performance Share Plan, the rules of which were adopted in April 2006.

In 2007 an adjustment was made to the number of shares that had been potentially awarded in April 2006. This upward adjustment of 6.4274% was made to represent the calculated bonus element of the rights issue that had been made in March 2007. The share price shown in the table below relating to the potential award made in April 2006 has similarly been adjusted downwards by the same percentage.

Movements in the year to 31st December 2008 were as follows:

Date of award	Share price at time of award – pence	In issue 1st Jan 2008	Granted in the year	Vested in the year	Lapsed in the year	In issue 31st Dec 2008
April 2006	120.27	1,014,179	–	–	(103,933)	910,246
March 2007	159.85	636,217	–	–	(93,837)	542,380
May 2008	52.00	–	1,025,854	–	–	1,025,854
Sept 2008	35.15	–	326,458	–	–	326,458
Total		1,650,396	1,352,312	–	(197,770)	2,804,938

Movements in the year to 31st December 2007 were as follows:

Date of award	Share price at time of award – pence	In issue 1st Jan 2007	Adjustment of 6.4274% in the year	Granted in the year	Vested in the year	Lapsed in the year	In issue 31st Dec 2007
April 2006	120.27	952,930	61,249	–	–	–	1,014,179
March 2007	159.85	–	–	636,217	–	–	636,217
Total		952,930	61,249	636,217	–	–	1,650,396

Five year summary

	As stated historically 2004 £000	2005 £000	Continuing operations		2008 £000
			2006 £000	2007 £000	
Group income statement					
Revenue	389,839	205,724	172,640	179,623	163,289
Operating (loss)/profit	(41,920)	17,433	18,606	13,148	5,292
Other gains – disposal of operations	–	–	–	–	31,056
(Loss)/profit before net finance expense	(41,920)	17,433	18,606	13,148	36,348
Net finance expense	(5,608)	(5,642)	(4,810)	(4,234)	(5,995)
(Loss)/profit before taxation	(47,528)	11,791	13,796	8,914	30,353
Tax expense	(2,364)	(3,140)	(4,227)	(3,085)	(1)
(Loss)/profit for the year	(49,892)	8,651	9,569	5,829	30,352
(Loss)/profit attributable to shareholders	(50,010)	8,448	9,545	5,829	30,352
Profit attributable to equity minority interests	118	203	24	–	–
(Loss)/profit for the year	(49,892)	8,651	9,569	5,829	30,352
Basic (loss)/earnings per 10p share	(53.62p)	9.28p	10.26p	5.39p	26.90p

The results for 2005, 2006, 2007 and 2008 are for continuing operations only. It has not been practicable to restate 2004 to exclude the now discontinued operations; hence results for that year are stated without amendment from those previously reported.

The 2004 operating loss is stated after charging £62,021,000 that had been accounted for as exceptional items, including goodwill impairment, under UK GAAP.

Earnings/(loss) per share figures for 2006 and prior years have been adjusted to allow for the bonus element of the rights issue made in 2007.

	2004 £000	2005 £000	2006 £000	2007 £000	2008 £000
Group balance sheet					
Goodwill	114,199	113,839	84,369	97,191	92,798
Other intangible assets	641	739	408	485	111
Property, plant and equipment	7,534	5,105	3,647	3,558	2,449
Other non-current assets	6,629	7,336	5,710	2,964	3,758
Total non-current assets	129,003	127,019	94,134	104,198	99,116
Current assets excluding cash	50,928	39,632	28,031	29,682	26,184
Current and non-current liabilities excluding borrowings	(64,085)	(47,587)	(33,552)	(28,664)	(33,520)
Net operating assets	115,846	119,064	88,613	105,216	91,780
Net borrowings	(84,622)	(79,889)	(76,698)	(57,968)	(19,016)
Net assets	31,224	39,175	11,915	47,248	72,764
Share capital	8,763	8,763	8,763	11,284	11,284
Share premium account	43,224	43,224	43,225	71,439	71,439
Other reserves	(20,813)	(13,065)	(40,073)	(35,475)	(9,959)
Equity shareholders' funds	31,174	38,922	11,915	47,248	72,764
Equity minority interests	50	253	-	-	-
Total equity	31,224	39,175	11,915	47,248	72,764

	As stated historically 2004 £000	2005 £000	Continuing operations		2008 £000
			2006 £000	2007 £000	
Group cash flow statement					
Net cash inflow from operating activities before exceptional items	26,692	20,177	20,211	8,010	10,920
Interest paid, net	(5,556)	(5,526)	(4,495)	(4,202)	(4,115)
Tax paid	(3,930)	(4,390)	(4,513)	(2,277)	(1,247)
Capital expenditure, net	(2,543)	(326)	(1,109)	(1,475)	(336)
Acquisitions and disposals	(4,562)	(3,735)	749	(8,679)	34,858
Equity dividends paid	(5,381)	(2,190)	(2,629)	(3,382)	(1,128)
Issue of shares	2	-	1	30,735	-
Decrease in loans and overdrafts	(6,671)	(3,614)	(5,197)	(18,286)	(39,413)
(Decrease)/increase in cash	(1,949)	396	3,018	444	(461)

The cash flows for 2005, 2006, 2007 and 2008 are for continuing operations only. It has not been practicable to restate 2004 to exclude the now discontinued operations; hence cash flows for that year are stated without amendment from those previously reported.

Shareholder information

Financial calendar

Announcement of 2009 results (provisional)	
For the half-year	August 2009
For the year	March 2010
Annual Report and Accounts circulated	March 2010
Annual General Meeting	May 2010

Dividends

Proposed final dividend 2008	
Announcement	10th March 2009
Ex-dividend	6th May 2009
Record date	8th May 2009
Payment date	5th June 2009
Interim dividend 2009 (provisional)	
Announcement	August 2009
Payment	October 2009

Analysis of shareholdings

On 27th February 2009 (the latest practicable date for analysis), the Company had 1,051 shareholders who held 112,844,209 shares between them, analysed as follows:

	Number of shareholders	% of shareholders	Number of shares	% of shares
Size of holding				
1 – 5,000	830	78.97	849,963	0.75
5,001 – 50,000	149	14.18	2,204,792	1.95
50,001 – 100,000	19	1.81	1,345,340	1.19
100,001 and over	53	5.04	108,444,114	96.10
	1,051	100.00	112,844,209	100.00
Type of shareholder				
Individuals	768	73.07	2,044,506	1.81
Nominee companies*	247	23.50	103,324,693	91.56
Other corporate and public bodies	36	3.43	7,475,010	6.62
	1,051	100.00	112,844,209	100.00

* This category includes the beneficiaries of pension funds, unit trusts, life assurance companies and investment trusts.

Share registrar

The Company's registrar is Computershare Investor Services PLC, PO Box 82, The Pavilions, Bridgwater Road, Bristol BS99 6ZZ.

Registered office

Allen House
Station Road
Egham
Surrey TW20 9NT
www.nestorplc.co.uk

Financial advisors and stockbrokers

Investec Bank (UK) Limited
2 Gresham Street
London EC2V 7QP

Auditors

BDO Stoy Hayward LLP
Prospect Place
85 Great North Road
Hatfield
Hertfordshire AL9 5BS

Registrars

Computershare Investor Services PLC
PO Box 82
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ

Solicitors

Eversheds LLP
One Wood Street
London EC2V 7WS

Principal bankers

Barclays Bank PLC
1 Churchill Place
London E14 5HP

HSBC Bank plc
8 Canada Square
London E14 5HQ

KBC Bank N.V.
5th Floor
111 Old Broad Street
London EC2N 1BR